Exploring International Trade between Malaysia and GCC Countries: Empirical Analysis on Trends, Developments and Challenges

ABU-HUSSIN, MOHD,FAUZI

Exploring International Trade between Malaysia and GCC Countries: Empirical Analysis on Trends, Developments and Challenges

Mohd Fauzi Bin Abu-Hussin
Ph. D.

Durham University
2010

Exploring International Trade between Malaysia and GCC Countries: Empirical Analysis on Trends, Developments and Challenges

By

Mohd Fauzi Bin Abu-Hussin

Thesis Submitted in Fulfilment of the Requirements
For the Degree of Doctor of Philosophy at Durham University

The School of Government and International Affairs
Institute of Middle Eastern and Islamic Studies
University of Durham, UK

2010


بسم الله الرحمن الرحيم
MRTsoft

Abstract

Exploring International Trade between Malaysia and GCC Countries: Empirical Analysis on Trends, Developments and Challenges
Mohd Fauzi Bin Abu - Hussin

The Gulf Cooperation Council (GCC) is the largest economic group in the Middle Eastern region and rank seventeenth in the global economy. The establishment of a GCC custom union in 2003 that led to a flat rate of imports tax between 0 and 5 percent has encouraged a number of economic groups such as the European Union (EU) as well as other individual countries to have closed trade relations with the GCC economic bloc. Malaysia is also interested in expanding its trade relations with the Arab Gulf economies. As Muslim countries and members of the Organisation of Islamic Conferences (OIC), trade between Malaysia and the GCC countries is increasing and has lead to Malaysia's proposal to expand this relation.

Given this background, one of the main aims of this research is to explore in detail bilateral trade relations between Malaysia and the GCC countries and their determinants. In fulfilling this aim, this thesis examines Malaysia's trade performances with the Arab Gulf region by analysing the trade intensity index and the revealed comparative advantage (RCA) index. These analyses reveal favourable countries for Malaysia to trade within the GCC, and also niche products for Malaysian exports. The competitiveness of Malaysian main products that are exported to the GCC countries is also compared to its rivals.

To provide further evidence, surveys with Malaysian traders and authorities were conducted. The survey with Malaysian traders was purposely to measure their perceptions of the GCC economic bloc. The surveys also identify traders' motivation for doing business in this market as well as challenges and obstacles in expanding Malaysian exports to these economies. In collecting this evidence, the combination of a questionnaire and semi-structured interviews were employed to collect the primary data; and the data were analysed through interpretative and textual analysis along with statistical analysis including factor analysis.

Based on the findings, it can be said that trade relations with the GCC countries is still insignificant in comparison to that with Malaysia's major trading partners. Nevertheless, due to Malaysia's niche products, expansion strategy of services sectors in both Malaysia and the GCC countries and the existence of favourable countries to trade in the GCC, these may create huge potential for expansion. The findings also reveal that, cultural differences and lack of capital have been the major problems for Malaysian businessmen in doing business with the GCC region. The findings also indicate that there is a growing interest in establishing a Malaysia–GCC free trade agreement as shown by Malaysian traders. Key findings from the aforementioned analyses are then constructed by employing a SWOT analysis based on the current trade relation between Malaysia and the Gulf countries in constructing viable recommendation for future relation between Malaysia and the GCC member within the aspirations of OIC.

Table of Contents

List of table

List of figures

List of Abbreviation

AFTA – ASEAN Free Trade Area

AMF – Arab Monetary Fund

ASEAN – Association of Southeast Asian Nations

BNM – Bank Negara Malaysia

COMCEC – Standing Committee for Economic and Commercial Cooperation of the Organization of the Islamic Conference

CU – Custom Union

DOTS – Direction of Trade Statistics

ESDS - Economic and Social Data Services

EU – European Union

FDI – Foreign Direct Investement

FTA – Free Trade Agreement

GATT – General Agreement on Tariffs and Trade

GCC – Gulf Cooperation Council

IMF – International Monetary Fund

INTRADE - International Trade Exhibition Malaysia

INTRACEN – international Trade Centre

MATRADE – Malaysia External Trade Development Corporation

MENA – Middle East and North Africa

MITI – Ministry of International Trade and Industry

n.e.s – Not elsewhere specified

OIC – Organisation of the Islamic Conference

PERDASAMA - *Persatuan Pedagang Dan Pengusaha Melayu Malaysia*

PETRONAS – Petroleum Nationals

PRETAS – Protocol on the Preferential Tariff Scheme for TPS-OIC

PROTON – Perusahaan Automobil Nasional (National Automobile Enterprise)

RCA – Revealed Comparative Advantage

SARS – Severe Acute Respiratory Syndrome

SESRCIC – Statistical, Economic, and Social Research and Training Centre for Islamic Countries

SME – Small Medium Enterprise

TPS-OIC – Trade preferential System – Organisation of the Islamic Conference

UAE – United Arab Emirates

UN COMTRADE - United Nations Commodity Trade Statistics Database

WTO – World Trade Organisation

Declaration

I hereby declare that no portion of the work that appears in this study has been used in support of an application of another degree in qualification to this or any other university or institution of learning.

DEDICATION

To those who showed me the meaning of love and sacrifice:

My father, my mother

my beloved wife, her mother and late father,

my lovely daughters

and all my teachers throughout my life journey.

Acknowledgement

Alhamdulillah, all the praises and thanks be to Allah S.W.T, the All Mighty God and the Lord of the world, Most Gracious, Most Merciful. My utmost gratitude goes to Allah who has given me the strength and guidance in all the effort to finish this tiny piece of work. May Allah accept this effort as deeds done *Lillahitaala*.

At this valuable opportunity, I would like to express my greatest gratitude to the kind-hearted supervisors Professor Rodney Wilson and Dr Mehmet Asutay, for their invaluable guidance, patience and constructive advice and idea throughout my three years of study in Durham University. I am deeply in debt to their patient and their precious time to guide me in completing this work. They have also been very understanding of my constraint and ability in completing this work.

My gratitude also extended to Dr N. Janardhan from Ministry of State for Federal National Council Affairs, UAE and Dr Samir Pradhan from Gulf Research Centre (GRC), Dubai, for their support, opinion and guidance on the Gulf related matters. My study would not have been possible without the financial support/scholarship that was given by the University of Malaya (UM) and Ministry of Higher Education (MOHE) Malaysia. I would like to thank these organisations for their financial support.

I am grateful to the respondents for their cooperation in answering the questionnaire and interviews for this study especially those in Malaysia and in Dubai. I regret that I can not mention everyone here. However, special appreciation goes to the Mr Dzulkifli in MATRADE, Mrs Ho, Mr Zakkariya from MITI, Mr Khairul from MTC, Mr Hadi from MATRADE, Dubai, and staffs in MATRADE for their assistance to let me conduct the research survey. Also thank you very much to Brother Fuad and Kak Zah for accommodating my family and me while we were in Dubai.

My greatest appreciations are reserved for my family especially my wife, Nor Adlina Jamonek, my beloved parents, Abu-Hussin and Misrah Amin, and my parents in law. They have given me help, patience, love, caring, *du'a*, and encouragement throughout my entire PhD process here in Durham. Their support meant more than a world for me. For these and many other reasons I am eternally grateful. For my two little princesses, Nashwa and Nadhrah, you have been my inspirations and thank you for your understanding when unable to enjoy the attention you fully deserved.

I would also like to express my thanks to all my fellow Malaysians, and my colleagues in SGIA, Durham University. Special appreciation to Bro Khamis from Oman, Hasheem from Saudi, and Samia from Thailand provided me great help and a joyful experience in the UK. Last but not east I would also like to thank all my dear friends, brothers and sisters in Durham, brother Afandi, Ustaz Maszlee, brother Nizam, brother Zulkifly (Kak Wan), brother Zul, Ustaz Jai, Dr Talib (cikgu), Dr Aneese, brother Syahmi, Sister Shamsiah, Khairizam and Najib, whose making my life during my study not just bearable but enjoyable and thank you very much for being such reliable friends to me.

Chapter 1 INTRODUCTION

1.1 BACKGROUND

Since gaining independence, Malaysia has been active in international trade, and is today one of the major trading nations in the world (ranking nineteenth)[1]. The Malaysian economy has been highly dependent on external trade; in 2008, Malaysia's major trading partners were the United States, Singapore, European Union and Japan.

As a dynamic, modern, and well developing Muslim country, Malaysia has been actively promoting trade expansion and enhancement with the Organisation of Islamic Conference countries. As stated in Mecca declaration in 2005[2], OIC has set up a target of 25 percent to be achieved within the Intra-OIC trade by year 2015 in its ten-year programme of action[3]. In view of this fact, Malaysia has been actively promoting intra-OIC to achieve this target by implementing different strategy. One of them is by expanding trade relation with the Middle Eastern countries.

Within the Organisation of Islamic Conference (OIC) countries, Gulf Cooperation Council (GCC), which considered as prosperous countries in the Middle Eastern region, has been an active trading partner for Malaysia since 1990s. In the mean time, both Malaysia and GCC countries represent modern, dynamic, and become an example as developed Muslim countries in the world.

It is also now national policy to increase Malaysia's exports to the West Asian markets (BNM, 2010, NEAC, 2010a). Under the Malaysian New Economic Model (NEM) which was launched in March 2010, Malaysia is now implementing new approach to its international trade strategy by shifting from

[1] In terms of overall imports and exports
[2] Third Extraordinary Summit of The OIC; Kingdom of Saudi Arabia, 7 – 8 December 2005
[3] In 2008, intra-OIC trade had achieved 10.5 percent of global trade and 16.2 percent of the total trade of OIC countries with an average growth of 9 percent (SESRIC, 2010)

dependency on traditional exports market (US, Japan and EU) to Asian and Middle East orientation. To date, trade relations between Malaysian and West Asian markets, especially the Gulf Cooperation Council (GCC) countries, are currently relatively limited, which was around 3 to 4 percent of Malaysia's total trade in 2008, in comparison to their 'traditional' trading partners mentioned above. Nevertheless, Malaysia's exports growth to the West Asian market in 2008 was 38 percent which considerably high (BNM, 2009).

Given the fact that Malaysia is in the process of setting up the Islamic Financial-Hub and World Halal-Hub, Middle-Eastern countries especially Gulf countries are seen as potential partners for trade exchange. At the same time, several GCC financial institutions have been established in Malaysia over the last two years which have created more opportunities for both GCC and Malaysian companies to run their business in the region.

Furthermore, the GCC policy, which is termed 'look to the east' (Al-Madani, 2006), brings a good opportunity to the far eastern economies and in particular Malaysia. As oil prices are increasing and the rapid growth of the Gulf region continues, Malaysia and other eastern countries can expand their expertise and share their experiences with the Gulf. Besides that, trade activity offers the best prospect for both parties to expand their growth.

Since Malaysia and the GCC have strong indigenous factors that encourage them to enhance their trade relations, this study is the first attempt to discuss the evolution of trade relationships between them. As they are all Muslim countries and part of the OIC, this study allies itself with the contribution to international studies involving Arab and Muslim countries. Furthermore, it is hoped that this study will inspire further research in relation to the issue of international trade, especially with regard to the developing nations.

1.2 PROBLEM STATEMENT

During the OIC economic conference in 2003, which was held at Putra World Trade Centre (PWTC), Kuala Lumpur, the former Prime Minister of Malaysia (Mahathir Mohammad) had urged Malaysia to expand its trade with other Muslim countries especially developing Muslim countries, and to invest more money in the poor Muslim countries (Mohammad, 2003b). Since then, several actions have been taken in order to realise stronger economic relations between Malaysia and its OIC allies.

Two years later in 2005, Mahathir Mohammad's successor, Abdullah Ahmad Badawi in his speech in World Islamic Economic Forum also echoed Mahathir's proposal to encourage a formation of free trade agreements among Muslim countries in order to enhance trade relations among them (Badawi, 2005: 231). He believed in the principal that the implementation of free trade among Muslim countries as an important approach to lay the foundation for a common market to boost trade and investment among themselves.

Although there are weaknesses and drawbacks in enhancing trade among Muslim countries, the leaders and the people of Malaysia and the GCC countries believe that there are many fields and opportunities for growth in their mutual trade relations. As mentioned in introduction that it is now Malaysian policy to expand its trade relationships with the Middle East countries and since the GCC economic group is globalising its economy, it is therefore important to examine and review the recent Malaysia-GCC trade relationship. This analysis will provide an assessment of the extent of their existing relations and offer policy recommendations for their present and future relationships.

Therefore, this research is carried out to explore Malaysia–GCC trade relationships and potentials as described in the following objectives.

1.3 AIM AND OBJECTIVES OF THE STUDY

This study aims to explore the relationships and also the potential of international trade relations between Malaysia and the GCC countries. To facilitate identified aims, the following objectives are developed:

1. To analyse the structural pattern of trade between Malaysia and the GCC countries over twenty years.
2. To identify the composition of trade between Malaysia and the GCC countries.
3. To measure the competitiveness of Malaysian exports to the Gulf region by using statistical methods
4. To identify the challenges and obstacles to penetrating this market through primary and secondary data.
5. To evaluate the potential and future prospects for this market.

1.4 RESEARCH QUESTIONS

This study focuses on the economic and trade relations between the Gulf Cooperation Council (GCC) countries and Malaysia, and will address the following research questions:

1. What proportion of GCC exports are sent to Malaysia and what proportion of GCC imports come from Malaysia over the last 20 years?
2. Has there been any significant trade growth between Malaysia and the GCC?
3. Which of the GCC member states trade most with Malaysia, as measured by their trade intensity index ratios?
4. What are the commodities most traded between Malaysia and the GCC?
5. How has Malaysia's exports competitive performance been over the years in relation to the GCC?

6. How is the GCC market viewed by Malaysian exporters?
7. What are the major constraints facing Malaysian exports to the GCC countries?
8. Would the Malaysian exporters and officials support the Malaysia-GCC free trade agreement?

1.5 SIGNIFICANCE OF THE STUDY/ MOTIVATION AND RATIONALE

This research is aimed at investigating economic relations, particularly trade relations between the GCC countries and Malaysia. Since both Malaysia and the GCC countries are members of the Organisation of Islamic Conference (OIC), it is important to investigate Malaysia's trade potential in this market as well as the challenges and obstacles faced by Malaysian traders in this market. On the other hand, as far as the GCC countries are concerned, they are shifting their economic and trade directions towards Asian economies rather than remaining with their traditional economic partners. Thus, this study is focused on how the small Asian economies like Malaysia, can contribute to this development.

There have been many in-depth empirical studies related to international trade; especially studies on bilateral trade relations between countries. However, to date, there has been no academic study or research focusing on the bilateral trade flow between Malaysia and the Middle Eastern countries, specifically its relationships with the GCC countries. As they and Malaysia have strong indigenous factors that encourage them to enhance their trade relations, this study is conducted to analyse such relations.

The present study is the first effort to investigate the evolution of trade relationships between Malaysia and the GCC countries. As they are Muslim countries and members of the OIC countries, this study is designated to contribute to international trade involving the Arab and Muslim countries. Furthermore, it is hoped that it will inspire further research in relation to the

issue of international trade, especially with regard to the developing Muslim nations.

Therefore, this study is expected to contribute significantly to this field through its empirical work but also through providing an understanding to the Malaysian government and GCC countries to strengthen their economic relations and to identify issues related to trade relations between them. Furthermore, this study may contribute to the OIC countries' economic cooperation strategies in enhancing their economic relations. Academically, this study also provides a different approach for assessing bilateral trade relationships by examining traders' views and experiences in doing business with a particular market, through primary data.

1.6 RESEARCH METHODOLOGY

In conducting this research, combinations of qualitative and quantitative methods have been employed here. In the first section, Malaysia's competitiveness *vis-à-vis* the GCC and global markets are researched through quantitative methods. In addition, this study investigates Malaysian traders' and authorities' views on the GCC market. Therefore, in order to examine their perceptions, questionnaire and interview survey approaches were used. These surveys are conducted with the objective of collecting primary data to be analysed for inferences. These approaches are vital for this research to support and substantiate and hence validate the findings from the revealed comparative analysis. Details on the research methodology and approaches carried out are discussed in Chapter 4, the methodology chapter.

1.7 ORGANISATION OF THE THESIS

This thesis consists of eight chapters, three of which (Chapters One, Two and Three) relate to the theoretical foundation and background of the study. Chapter Four is mainly focused on methodology, and Chapters Five, Six and Seven are devoted to empirical study. Chapter Eight presents the conclusions and recommendations.

Chapter One introduces the thesis, outlining the research objectives and questions, and explaining the significance of the study as well as its organisation. This chapter also reviews the literature on trade theories and Muslim countries' participation in the world trade.

Chapter Two reviews the international trade theories and endeavours to analyse comparative advantage theory as well the analysing on trade relationships among Muslim countries.

Chapter Three highlights the key macroeconomic indicators of the GCC countries and investigates their economic background. The historical foundation and economic integration agenda of the GCC countries, both regionally and internationally, is also discussed.

Chapter Four examines the economic background of Malaysia, as well as its trade pattern. It also examines the economic integration of Malaysia with the world economy and with other Muslim countries.

Chapter Five discusses the research methodology, describing the measures that were adopted by the researcher for data collection when using the quantitative and qualitative techniques.

Chapter Six is devoted to the specific analysis of merchandise trade relations between Malaysia and the GCC countries. It investigates Malaysia's trade potential with these countries by analysing post-trade data. Analysis of revealed comparative advantage (RCA) index is employed in this chapter.

Chapter Seven and Eight are dedicated to a discussion on findings from the surveys which provide insight into the outcomes of the surveys, and discuss what may be learned from the findings.

Chapter Nine discusses the main finding by bringing together the all findings and results from both the quantitative and qualitative data analysis. Much discussion involves the existing strengths of and opportunities for trade relations between Malaysia and the GCC countries; the weaknesses and current threats to expanding these relationships are also discussed.

Chapter Ten conclude the research and also makes forward suggestions and recommendations for improving present bilateral trade relations.

Chapter 2 INTERNATIONAL TRADE: LITERATURE REVIEW OF THEORIES AND MODELS

2.1 INTRODUCTION

Trade between countries occurs by exchanging goods and/or services with their counterparts. Economic interaction between parts of the world has expanded over the centuries and exerted a significant impact on the world's economic development. There is a large volume of published studies describing the theory of international trade which have exemplified to the way that countries interact with each other in exchanging their goods and services. These include classical, neo-classical and new trade discourses.

Discussion on international trade started with the maxim of the mercantilists in the seventeenth and eighteenth centuries who believed that to be a rich country, a nation must export more of its products than import them. For them it is necessary to have trade surplus by exporting more products. This surplus then would be settled by an inflow of bullion, or precious metals, primarily gold and silver. They also suggested that governments should impose strict controls on all economic activity including trade between nations (Kalbasi, 1995).

As a reaction to the mercantilists' views on trade and the role of government (Marrewijk, 2002: 26), Adam Smith (1776), a founding father of classical economics, issued a free-trade theory based on the *Theory of Absolute Advantage* (also known as absolute cost)[4]. Understanding this view and flow of trade theory are important in order to construct the reason why nations trade with their counterparts. In Smith's influential masterpiece ' *An Inquiry into the Nature and Causes of the Wealth of Nations*', it is mentioned that:

[4] "The ability of an economic actor (an individual, a household or a firm) to produce some particular good or service with a smaller total input of economic resources (labor, capital, land, etc.) per unit of output than other economic actors." (Johnson, 2005)

> *It is the maxim of every prudent master of the family, never to attempt to make at home what is costing him more to make than to buy… What is prudence in the conduct of every private family can scarce be folly in that of a great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy off them with some part of the produce of our own industry, employed in a way in which we have some advantage. (Smith, 1776: 401)*

2.2 THEORY OF INTERNATIONAL TRADE: A REVIEW ON LAW OF COMPARATIVE ADVANTAGE

According to Smith (1776), trade between two nations occurs when each country has an absolute advantage. By this, it is meant that, when one nation is more efficient than (or has an absolute advantage over) another in producing one commodity but is less efficient than another in producing a second commodity, then both countries can specialise on their advantage and exchange part of their output with that of the other nation for the commodity of its absolute advantage.

In addition, as to the Smith's notion on the specialisation in economy, in his argument on international trade there have been nothing more than the application of specialization and the division of labour on a global scale (Gomez, 1987). All in all, Smith's argument on absolute cost advantage is that, a country will produce goods or service of it has more efficiency in producing those particulars goods or services than other nations.

Nevertheless, Smith's notion on absolute advantage was criticised. As argued by Kennedy, 'What if there is nothing you can produce more cheaply or efficiently than anywhere else, except by constantly cutting labour costs?' (taken from Marrewijk, 2002: 34). This means that it is impossible for a country to have absolute advantage over its counterpart, especially in the current modern globalised world. On the other way around, if a country has absolute advantage in all production of goods than its partner, it is possible to trade with the counterparts (Carbaugh, 1985: 14).

In addition to this, Salvatore (1997: 36) suggests that the absolute advantage trade theory 'could not explain trade among developed countries as the theory is suitable to explain only a very small part of the world trade such as some of the trade between developed and developing countries'.

In response to Smith's argument on absolute advantage, David Ricardo (1817), a classical British economist in the nineteenth century, formulated a major part of international trade theory, the so-called *"Law of Comparative Advantage"*.

2.2.1 **Ricardo's theory of comparative advantage**

The Law of Comparative Advantage was characterised by the famous Corn Laws, which happened when there was a restriction of grain imports in Britain between 1815 and 1846 (Marrewijk, 2002: 41). David Ricardo (1817) is recognised amongst the contributors in introducing this law. He argued that mutual trade could occur even when a country has absolute advantage in all goods over its trading partner by emphasising the comparative cost or relative cost.

Ricardo (1817: 147 – 148) used England and Portugal as examples in his illustration of the comparative advantage theory. He illustrated that Portugal and England were producing two goods (wine and cloth). Ricardo assumed that Portugal is more efficient in the production of both wine and cloth over England. To make the pure example more concrete and closely related to this study,

Table 2-1 summarises assumption about the cost conditions in the two countries based on comparative advantage argument by using Malaysia and Oman as an example.

As explained in

Table 2-1, Oman is more efficient in the production of both goods; it requires 12 units of labour rather than 36 units of labour to produce one unit of

malt and 3 units of labour rather than 6 units of labour to produce one unit of cloth. Thus, based on the theory of absolute advantage Malaysia would not be able to trade with Oman.

Table 2-1: Cost Comparison

Unit of labour required to produce 1 unit output		
Country	1 unit of Malt	1 unit of Cloth
Oman	12	3
Malaysia	36	6

Modified from Ricardo's illustration of comparative advantage

Nevertheless, according to the principle of comparative advantage, even there is no absolute advantage for a nation (as illustrated in

Table 2-1, where Malaysia has absolute disadvantage) mutually beneficial trade may still exist. The theory argues that comparative costs are important for determining a nation's production advantage. Table 2-2 gives the opportunity costs of producing malt and cloth in Oman and in Malaysia, constructed based in the information given in

Table 2-1.

Table 2-2: Opportunity cost / comparative cost

Unit of labour required to produce 1 unit output		
Country	1 unit of Malt	1 unit of cloth
Oman	12/3 = 4	3/12 = 0.25
Malaysia	36/6 = 6	6/36 = 0.17

Table 2-1 and Table 2-2 shows that Malaysia is twice as inefficient as Oman in producing cloth (it requires 6 unit of labour, rather than 3) but three times as inefficient as Oman in producing malt (it requires 36 units of labour, rather than 12). Thus, it is suggested that Malaysia should specialise in producing cloth and exchange it with malt from Oman. According to Bhagwati

and Balasubramaniam (1998) Ricardian theorem stated that, a country will export or import that commodity in which her comparative factor productivity is higher or lower. Thus, Oman has a comparative advantage in the production in malt and exports it in exchange to cloth from Malaysia. While, Malaysia has a comparative advantage in the production in cloth and exchange it to malt from Oman.

To make this thing clear, as discussed by Marrewijk (2002: 44) here is how the comparative cost works. Suppose Malaysia produces one unit of malt less. This frees up to 36 unit of labour. These 36 units of labour can be utilised in Malaysia to produce 36/6= 6 units of cloth. The opportunity costs of producing malt in Malaysia are 6 unit of cloth. Malaysia now produced 1 unit of Malt less and 6 units of cloth more. Suppose, however, that Malaysia wants to consume the same quantity of Malt as before. It must then import 1 unit of malt from the Oman. To produce 1 extra unit of malt, Oman needs 12 units of labour. These labours must come from the cloth industry, where production therefore drops by 12/3 = 4 units of cloth, reflecting the opportunity costs of producing malt in Oman. Now, in reflection of the above labour reallocation, the production from these two countries will be also affected. Malaysia produces 1 unit malt less, but 6 units of cloth more, while Oman produces 4 units of cloth less, but 1 unit of malt more. In consequent, the total production of the malt remains unchanged while production of cloth rises by 2 units. If both countries specialise in producing of the good that they have a comparative advantage, in this case cloth for Malaysia and malt for Oman, the extra 2 units of cloth could be the potential gains from specialisation.

Moreover, Rauch (1991) argues that, the theory of comparative advantage (Ricardian and H-O) model of trade is capable to predict only the pattern of trade between countries in more than two commodities but not the volume of trade in each commodity. In his argument, he stated that the fundamental reason is; potential domestic producers are never able to gain a

share of the domestic market for any importable, regardless how slight is their comparative advantage. Specifically, the theory of comparative advantage predicts only the pattern of trade in term of its complete specialisation of a country's productions in its exportable.

2.2.2 **The Heckscher-Ohlin Model**

The Ricardian theory of comparative advantage provides basic understanding on international trade. It does not explain in detail, however, the reasons of comparative cost discrepancies (Carbaugh, 1985) and differences in factor productivities between commodities and countries (El-Agraa, 1983: 76). In addition Marrewijk (2002: 59) states that there are three important issues associated with the theory, there are: technological difference, trade pattern between countries may also effected by other economic forces, e.g: prices, and the comparative advantage take into account only on factor of production (labour).

These gaps in the Ricardian model have been further amplified and criticised by two neo-classical economists from Sweden, Heckscher (1919) in collaboration with his student Ohlin (1924). They eventually developed the so-called Heckscher-Ohlin (H-O) model of comparative advantage in the 1930s. This theory argues that trade results from the fact that different countries have different factor endowments. Some prominent economists have claimed that the H-O model is the dominant trade theory today. For example, Helpman (1998: 574) described the theory as the "workhorse of the profession" and according to Leamer and Levinsohn (1995) the theory has served as a "backbone of traditional trade theory" for more than 60 years.

Basically, the Heckscher-Ohlin (H-O) model suggests that a country which uses its relative factor abundance intensively will have a comparative advantage, and export the commodity. Hence, Salvatore (2001: 129) mentions that the Heckscher-Ohlin theory can be clarified as follows:

> *A nation will export the commodity whose production requires the intensive use of the nation's relatively abundant and cheap factor and import the commodity whose production requires the intensive use of the nation's relatively scarce and expensive factor.*

According to the definition of the H-O theory, we can state that the determinant factor of comparative advantage and trade among the nations is based on relative factor abundance or factor endowment. For that reason, the H-O model is also known as the factor proportions or factor endowment theory (Salvatore, 2001: 130). Carbaugh (1985: 47) emphasises that in the factor endowment model, differences in relative national supply conditions explain the pattern of trade for a country. The H-O trade theory is usually formulated within this framework: "there are two commodities (commodity X and commodity Y), two factors of production, and two countries which have identical tastes; a country will export the good which intensively uses the relatively abundant factor of productions" (Marrewijk, 2002: 115).

As discussed, Heckscher-Ohlin (H-O) model depends on the factor abundance: there are two definitions of factor abundance; that are relative factor prices and physical units (quantity). The former means that a country's rental price and the price of labour time are relatively lower than another country. This definition says that country A is capital-rich compared with country B if capital is relatively cheaper in country A than in country B. The second definition compares overall amount of capital and capital in each country. It says that country B is relatively capital abundant if it has higher ratio of the total amount of capital to the total amount of labour than another country (country A).

Krugman and Obstfeld (2006), however argue that there is no country has a factor abundant in everything. Although, home country has 50 million workers more than foreign country, it does not mean, home country is a labour abundant. However, it depends on land that the country has. If, a home country has 70 million workers and 140 million acres of land (a labour to land ration is

1:2) while foreign country has 20 million workers and 20 million acres of land (a labour to land ratio is 1:1). We consider that foreign country to be labour-abundant even though it has less total labour than the home country and home country is relatively capital-abundant (Krugman and Obstfeld, 2006: 61).

The most important thing that the H-O trade theory attempts to address is the patterns of trade among the nations that involve in the free trade. The H-O theory has also attempted to establish the reasons for importing and exporting certain commodities as well as the nature of the countries involved in the exchange process. Importantly, since the early part of the 20th century, the H-O trade theory has widely been used to explain the pattern of trade.

The model, then, has been improved through seminal contributions by Samuelson[5] (1948; 1949; 1953; 1956; 1967) and others. On the other hand, the Heckscher-Ohlin-Samuelson (H-O-S) model has been argued empirically in several researches. The first and famous empirical study has been conducted by Wassily Leontief (1953). He examined import and export data from the United States in 1947 and discovered that US exports were on average relatively labour intensive while imports are relatively more capital intensive by thinking that the USA was a capital abundant country. The finding seems contradicting the H-O-S model. This has become known as the "Leontief Paradox" (taken from Marrewijk, 2002: 122) .

In addition to that, Bowen et al. (1987) have carried out a study on twenty seven countries and concluded that the "Heckscher-Ohlin propositions that trade reveals gross and relative factor abundance are not supported by these data". Besides this, Deardorff (1984: 512) in his work on trade theories evaluation asserts that, the H-O trade model is remarkably well in understanding trade theory and the basic model is useful in understanding the

[5] Hence the H-O model is sometimes referred to as the Heckscher-Ohlin-Samuelson (H-O-S) model.

commodity composition of international trade, but is otherwise "fairly helpless".

All in all, this theory determines trade by comparative advantages derived from different factor endowments, besides the pattern of specialisation. According to Wilson (1977: 105) a country's factor endowment is an important factor that determine country's trade as well as investment. Nevertheless, as critics says, 'this theory leaves a great deal of today's international trade unexplained' (Kalbasi, 1995). As suggested by Deardorff (1984) there is a need to have new development on trade theories that consider factor proportion, economies of scale, degrees of product differentiation, imperfect competition, and differences in technological changes among nations. These factors are then blended together to determine countries' trade patterns, trade composition and partners. Thus, this new development leads to the new trade theories.

2.2.3 **New trade-theory (Intra-Industry trade)**

The above afore-mentioned trade theories is explained in the perfect Classical and neo-classical trade theories discussions mainly focused on trade between countries in different products – for example, the exchange of cloths for food. These types of trade pattern are known as 'inter-industry' trade. We now attempt to discuss on trade between countries in similar products, this theory is 'called intra-industry' trade. The simultaneous importation and exportation of food or cars by a country are among the example. On the other hand, intra-industry trade can be defined as a simultaneous exchange of similar but differentiated goods or services of the same industry or broad product group. The existence of intra-industry trade is mainly to take advantage of important economics of scale in production (Salvatore, 2001).

There are several conditions why intra-industry trade occurs between countries. According to Perdikis and Kerr (1998), intra-industry trade arises in seasonal good's production, for example, agricultural products. In one season a

country may produce and export a good, whereas in another it might import it. Canada exports fruit during the southern hemisphere's winter and imports fresh fruit from the southern hemisphere's during its winter.

Although, the intra-industry trade was first acknowledged by Ohlin (1933) it was not seriously studied until the mid 1960s (Perdikis and Kerr, 1998) because of the argument that claimed the traditional trade theories, based on comparative advantage, cannot be accounted as intra-industry trade (Davis, 1995b). This argument has been emphasized by several economist such as Lancaster (1980), Helpman and Krugman (1985), Balassa and Bauwens (1988). They claimed that, the traditional trade theories have difficulty to explain a large number of trades in similar factor endowments and technology that occurred between countries (Davis, 1995b).

Krugman and Obstfeld (2006) suggested that, intra industry trade contributes extra gains from international trade, over and exceed those from comparative advantage. According to him, by engaging to the intra-industry trade, a country will benefit from a larger market by reducing the number of products which has been produced and increase the variety of goods available to domestic consumer (Krugman and Obstfeld, 2006: 129).

According to Salvatore (2001: 179), there are several interesting consideration of implementation the intra-industry trade models developed by the economists since 1979. Although trade in the H-O model is based on comparative advantage among nations, intra-industry trade is based on product differentiation and economies of scale. Consequently, trade among nations based on comparative advantage is likely to be larger when the difference in factor endowments among nations is greater and intra-industry trade is likely to be larger among economies of similar size and factor proportions.

He also argued that, with the products produced under economies of scale, pre trade-relative commodity prices might no longer accurately predict

the pattern of trade. By this it means that, in the absence of trade, a large country with abundance of factor proportions may produce a product at lower cost than a smaller country because of economies of scale. However, with the existence of trade, all countries have same advantage of economies of scale. As a result, the smaller country could conceivably undersell the larger nation in the same commodity.

Importantly, Salvatore (2001: 179), has pointed out that, intra-industry trade increases the economic cooperation among nation in order to minimize their costs of production and also provides greatly employment opportunities in some developing nations.

There are several models explain the intra-industry trade including Krugman (1979, 1980), Lancaster (1980), Brander (1981), Falvey (1981), Helpman (1981), Eaton and Kierzkowski (1984), Shaked and Sutton (1984) , Helpman and Krugman (1985) and Flam and Helpman (1987). Each of the models provides an explanation of intra-industry trade in different way, (for example, in product differentiation, monopolistic competition, oligopolistic competition, and the existence of economies of scales. However, interestingly, some extensions to the theory of intra-industry trade have been developed. Davis (1995a), for example, demonstrate that intra-industry trade can occur on the basis of comparative advantage deriving from differences in technology between countries. This model also has a challenging feature that increasing returns are not necessary to explain intra-industry trade. Empirical Measure of Comparative Advantage: Revealed Comparative Advantage

2.3 EMPIRICAL MEASURE OF COMPARATIVE ADVANTAGE (REVEALED COMPARATIVE ADVANTAGE)

The previous section presented the main trade theories that lay down the reasons for a country to open its market to the world and become involved in international trade. This work, however, does not intend to test either the previous proposition as such, but one of the objectives of this research is to

assess Malaysian products competitiveness in the GCC countries. In order to evaluate this in the context of Malaysia and the GCC, revealed comparative advantage measurement is considered by this study. In addition, the idea is also to investigate Malaysia's actual exports which reveal the country's strong sectors/products. This procedure should establish Malaysia's revealed comparative advantage over its trading partners, which is accomplished by reviewing post trade data.

In this section, an analysis of Balassa's (1965) 'Revealed Comparative Advantage', which has been intensively used for analysing trade advantage between countries and their partners with regard to world trade, is discussed.

The concept of revealed comparative advantage (RCA) is grounded in conventional trade theory. Originally, it was founded by David Ricardo in his theory of comparative advantage, which was previously discussed.

Nevertheless, it is argued that, the law of comparative advantage is difficult to quantify due to difficulty and unobservable relative prices under autarky. Moreover, the principle of comparative advantage does not favour "determining relationships between it and the volume of trade, as is often conveniently forgotten in empirical works" (Greenaway and Milner (1989) taken from Ferto, 2004).

Despite the difficulties, and given the important role of comparative advantage to both theoretical and policy analysis, economists and policy makers have made great efforts to conduct studies on this theory in order to understand the real world circumstances.

2.3.1 **Measuring Revealed Comparative Advantage (RCA)**

Many researchers have attempted to define an appropriate index of RCA (e.g: Balassa 1965, Bowen, 1983; Donges and Riedel, 1977; Kunimoto, 1977; Vollrath, 1987; 1989). Details of the various RCA examinations are explained in Vollrath (1991) and Benedictis and Tamberi (2001). However, in this study, we

only focus on RCA indices applied to this research. Hence, Balassa's index was used, who has done significant work to reveal a country's comparative advantage and introduced his famous index, which was known as Balassa's index in 1965. It is also widely known as Revealed Comparative Advantage Index (RCA Index)[6].

Balassa (1965) presented a comprehensive and advanced measure of the RCA index, which is widely accepted for measuring RCA in the literature. Balassa (1965) proposed two measures; one based on export-import ratios, the other on relative exports shares. He argues that (pp. 116-117) *"Comparative advantages appear to be the outcome of a number of factors, some measurable, others not, some easily pinned down, others less so. One wonders, therefore, whether more could not be gained if, instead of enunciating general principals and trying to apply these to explain actual trade flows, one took the observed pattern of trade as a point of departure..".*

The index can be written as:

$$RCA_{\mathrm{j}} = \frac{(X_{ij}/X_{it})}{(X_{nj}/X_{nt})} = \frac{(X_{ij}/X_{nj})}{(X_{it}/X_{nt})} \qquad (2.1)$$

Where X represents exports, i is a country, j is a commodity (or industry), t is time, and n is a set of countries[7]. Literally, RCA_j measures a country's exports of a commodity j (or industry j) and corresponding exports of a set of countries, e.g. the GCC. The above index of revealed comparative advantage (RCA_j) has a relatively simple interpretation. The critical level of the indicator is 1, means the product neither has advantage nor disadvantage. A comparative advantage is revealed, if RCA_2>1 (greater than 1). If it is less than

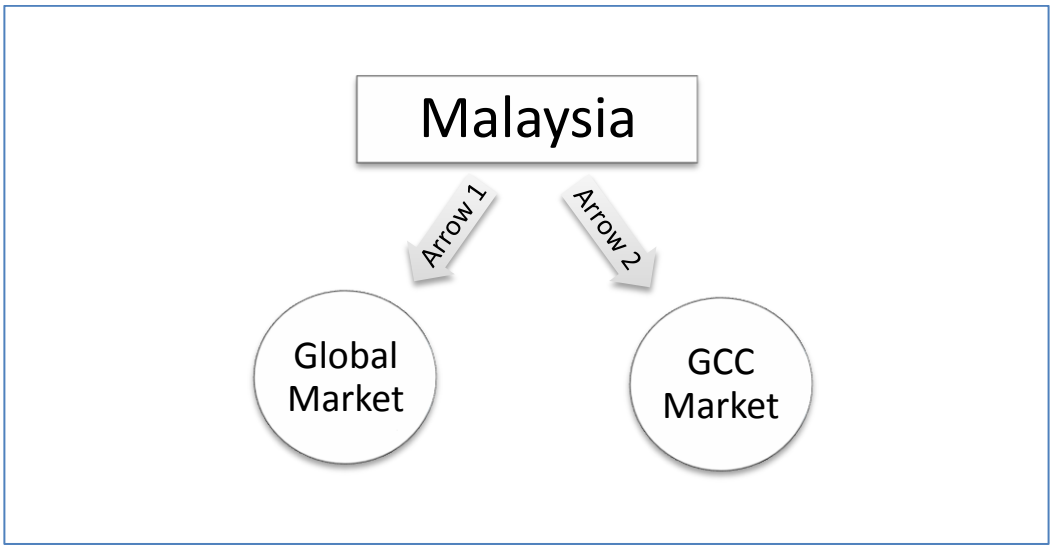
[6] The bilateral RCA compares an exporting country's specification in its overall trade of industry's goods is similar in its trade with a particular importing country. For instance, if machinery makes up 25 percent of its trade with j (the numerator in the formula above), but only 10 percent in its overall trade (the denominator), then goods enjoy certain comparative advantage in its exports to j. The bilateral RCA value in this case is 2.5 (namely 20% / 10 %) and emphasises this very fact.

[7] Note that, *n* might be represented world (*w)*.

1, it reveals a comparative disadvantage or the country is said to have a comparative disadvantage in the particular commodity/industry.

Given the above specification in equation 2.1, this study endeavours to analyse the competitiveness of Malaysia's export in two different contexts (see Figure 2-1). First, this study investigates Malaysia's products' competitiveness at the global level (arrow 1). Secondly, this research examines Malaysia's product competitiveness in the GCC market by using GCC total exports to identify Malaysia's comparative advantage (arrow 2). Details on this specification are discussed in Chapter 6.

Figure 2-1: Calculating Revealed Comparative Advantage



Besides the Balassa's index of revealing comparative advantage, Vollrath (Vollrath, 1991) offered three alternative specifications of revealed comparative advantage. The first of these measures is the relative trade advantage (RTA), which accounts for imports as well as exports. It is calculated as the difference between relative export advantage (RXA), which equates to the Balassa index, and its counterpart, relative import advantage (RMA). Vollrath's second measure is simply the logarithm of the relative export advantage (where he used logarithm in calculating RCA index) and his third

measure is revealed competitiveness (RC), which defined as: RC = ln RXA – ln RMA[8].

On the other hand, Proudman and Redding (1998) proposed to weigh a country's Bilateral RCA index for an individual commodity with the arithmetic mean of the country's Bilateral RCA scores (taken from Yu et al., 2009).

Taken into account other factor that influences bilateral trade relation between countries, Greenway and Milner (1993), argue that the above RCA index (equation 2.1) is biased as imports of the particular country is not taken into account especially when country-size is important.

Utluku and Seymen (2004) proposed an alternative RCA index which country's import is taken into account in order to refer to the "own" country trade performance. It is believed that this measurement of country's revealed comparative advantage recognises possibility of simultaneous exports and imports within a particular commodity.

Meanwhile Yu (Yu et al., 2009) proposed new methods in analysing RCA index. They proposed the normalized revealed comparative advantage (NRCA) index as an alternative measure of comparative advantage. They argued that the NRCA is capable of revealing the extent of comparative advantage that a country has in a commodity more precisely and consistently than other's indices in literature. They asserted that the index measures the degree of deviation of a country's actual export from its comparative-advantage-neutral level in terms of its relative scale with respect to the world export market.

Besides the previous index that concentrated into exports and imports as main element in revealing country's comparative advantage, Menzur et. al (Manzur et al., 1991), used Divisia indices in constructing the relation between prices and volumes of traded goods. They link them to the real exchange rates of a country in which it enables tracking of the temporal changes to a country's

[8] RXA is defined as: relative export of country j = ([(x$_{ij}$ / x$_j$ / (x$_j$ / x$_{nt}$)], and RMA is defined as relative imports of country j = ([(M$_{ij}$ / M$_j$ / (M$_j$ / M$_{nt}$)]

international competitiveness. According to Charterjee et. al. (2004) the Divisia index serve as an alternative to conventional model in calculating country's competitiveness. They argued that, the index is "simply accepting the empirical relevance of the Law-of-one-Price, one could examine whether and to what extent exchange rate movements and domestic prices of specified items of a country's traded goods move in line with one another" (Chatterjee, 2004: 118).

Notwithstanding, giving the importance and well-established RCA index that were introduced by Balassa and taking the objective of research into account, this study employed this methods in order to revealing Malaysia's product competitiveness in the GCC countries. Further empirical evidence on RCA index is discussed in section 2.3.3

2.3.2 **Methods of Measuring Revealed Comparative Advantage**

There are three ways in measuring the RCA index (Kalbasi, 1995). These include calculating the index by using the production, consumption, and trade statistics as studied by Ballance *et. al.* (1987) and Ballance (1988). Bowen (1983) suggests a probabilistic framework where RCA is expressed in terms of the deviation between actual and expected levels of trade, production and consumption.

The second proposal of Bowen (1983) is mainly derived from the Kunimoto (1977) work on revealing comparative advantage (taken from Bowen, 1983). The third method in measuring Revealed Comparative Advantage is a work by Balassa (1965) which used actual trade statistics. This method has been utilised in this study in Revealing Malaysia's comparative advantage with the GCC countries.

2.3.3 **Revealed Comparative Advantage index: selective survey of literature**

Apart from the theoretical discussion as discussed above, there are many empirical studies using RCA method to analyze a country's specialisation

in international trade. This can be divided into two categories: one is a study on a country's competitiveness in comparing with global trade and secondly for analysing a country's specialisation with respect to particular country or region (bilateral comparison).

With regard to the research on a country's competitiveness in the global level, here are several previous studies on that matter. Basically, Balassa (1977) himself conducted a study on an analysis of the pattern of comparative advantage of industrial countries for the period 1953 to 1971. It is found that the export diversification tends to increase with the degree of technological development.

Kalbasi (1995) analysed Iran comparative advantage with respect to the world trade and found that Iran's exports tend to lie in natural-resource-based goods often agricultural products, and labour-intensive products.

Yeats (1997) studies the possible distortions in trade patterns on account of discriminatory trade barriers that are characteristic of the Revealed Trade Advantages. He uses the revealed comparative advantage index to identify any apparent of inefficiency in trade patterns for the Mercosur group of countries.

Richardson and Zhang (1999) used the Balassa index of RCA for the U.S. They analyse the patterns of variation across time, sectors and regions. They found that the patterns differ across different parts of the world, over time as also for different levels of aggregation of the export data.

By using Balassa's RCA index, Yue (2001) demonstrate the fact that China has changed its export pattern to correspond with its comparative advantage and that there are distinct differences in export patterns between the coastal regions and the interiors in China.

Batra and Zeba (2005) identified China and India comparative advantage pattern by using the Balassa (1965) index for export dat. Harmonized System of classification of trade data were used in calculating the

RCA index. They conclude that, the pattern of comparative advantage varies at different levels of commodity disaggregation. Nevertheless, it is found that, India's comparative advantage mainly come from cotton industry while china in textiles, sets, worn clothing.

As mentioned, they are several studies in analysing a country's specialisation in comparison with a particular country or economic region. Among them include Utkulu and Seymen (2004). They investigated Turkish's export competitiveness with respect to the EU-25 by using Balassa's index of RCA and their extended version. They found that Turkey has revealed comparative advantages for seven of the 63 product groups: clothing and clothing accessories; vegetables and fruit; sugar, sugar preparations, honey; tobacco; oil seeds and oleaginous fruits; rubber manufactures; textile yarn, fabrics and related products.

Yılmaz (2003) examines the Turkish trade competitiveness and the structure of specialisation in trade in comparison with the five EU candidate countries (Bulgaria, the Czech Republic, Hungary, Romania, Poland) and the EU/15. By employing four different measures of competitiveness, namely revealed comparative advantage (RCA), comparative export performance (CEP), trade overlap (TO), and export similarity (ES) indices, the empirical findings suggest that Turkey has a strong comparative advantage in raw material-intensive.

By using similar index, Akgungor, S (2002) et.al, investigated competitiveness of the Turkish fruit and vegetable processing industry in European market. The author investigates the competitiveness of Turkey's tomato, grape, and citrus fruit processing industry product exports in the EU market. The finding reveals that Greece, Spain, and Portugal are Turkey's competitors. They also found that Turkey's competitive power is higher than Spain and Portugal in processed grape exports, and is higher than Greece and Portugal in citrus fruit exports.

Based on Balassa's revealed comparative advantage (RCA) measure, Khatibi (2008) analyses Kazakhstan's exports competitiveness in the EU27. He concluded that although shows a revealed comparative advantage in a number of sectors, its competitiveness have a falling trend in almost all sectors.

Meanwhile, Saboniene (2009) examine Lithuanian export competitiveness in 2000-2007 by using modified indices of revealed comparative advantage. The analysis of Lithuanian export competitiveness is also compared with other small Baltic states (Latvia and Estonia). Results of RCA study reveal competitive advantage in several commodities.

2.3.4 **Surveying literature on Revealed Comparative Advantage Index: Case Study on Malaysia**

It is agreed that RCA index has some benefits in analysing product advantages for a country as it is strongly believed that the RCA index considers the fundamental advantage of a particular export commodity and is independent of size and the overall trade surplus/deficit situation (Batra and Khan, 2005). On the other hand, this index is widely accepted for analysing a country's advantage in exporting its goods to its counterpart. A number of studies have been conducted by using this index in assessing such opportunities. The following discussion is attributed to previous studies on revealed comparative advantage which have focused on studying Malaysia's comparative advantage.

By using both version of the Balassa index on comparative advantage and an export competitiveness index, Mahmood (1999) determined the competitiveness of Malaysian exports with respect to the global market as well as ASEAN economies. He suggested that the manufacturing sector has significantly changed Malaysian export structures to compete with the world's rising demand in manufacturing sector. He noted that overall electronic and electrical manufacturers remained the most important contributors to the manufacturing sector.

Abidin and Wai Heng (2008) examined the global competitiveness of the Malaysian economy by focusing on five non-resource-based manufactured goods and one selected resource-based manufacturer for the 2001 – 2005 period. By using Standard International Trade Classification (SITC) in 3 digit level, the study employed the Balassa index of comparative advantage to estimate those particular product groups including wood and wood products, and manufacturers of machinery (except electrical), electrical and electronics goods, metals, textile, clothing, and footwear, and transport equipment. Findings from this study suggest that Malaysia still holds comparative advantage for electrical and electronic goods and machinery (its largest export item). It is also suggested that market access for clothing and wearing apparel, selected manufacturers of machinery and metals, wood, and wood products must be emphasised in any negotiation on multilateral or bilateral trade liberalisation. This is due to these products' competitiveness in the world market.

In terms of Malaysia's bilateral RCA with other economies, Yeoh and Ooi (2007) analysed the competitiveness of Malaysian exports commodities with respect to China's global exports, which, purposely, identified niche products of Malaysian exports to China. By using HS 2-digit data classification, the analysis is divided into two categories, namely primary and secondary sectors. In terms of the primary sector, results from the analysis suggest that Malaysia holds a comparative advantage in raw materials with respect to the Chinese market. Products identified in this category included tin and tin products, wood and wood products, charcoal, rubber and rubber products. In the secondary sector, there can be opportunities in the Chinese market for Malaysian production of animal fats, vegetable fats and oils, and cleavage products.

A recent work by Amin and Hamid (2009) analysed five major Muslim countries' comparative advantage by employing RCA measures. These five countries include Malaysia, the UAE, Jordan, Turkey, and Pakistan. They used

HS 2002 classification with two-digit data level, and findings from the index for each individual country were then compared with the main imports of each corresponding country. The results suggest that, there is a potential expansion of between 10 % and 25 % of trade between these individual Muslim countries..

Literature also exist which measures Malaysia's competitiveness at the sectoral/industrial level. Muhammad and Yaacob (2008), employing Constant Market Share (CMS) and RCA frameworks, compared the competitiveness of selected Malaysian electric & electronics products *vis-à-vis* the USA, Singapore, Japan and Hong Kong markets. Results suggested that Malaysian electric and electronics exports only performed well in the US market.

As mentioned earlier, despite the advantages, some things should be borne in mind. According to Pascha (2002), the RCA only covers actual performance and information on subsidies that may cause high RCA has not been taken into account. The index also cannot distinguish improvement in factor endowments and can be distorted by government policies and interventions (Fertő and Hubbard, 2002). Therefore, it may misrepresent underlying comparative advantage. With these considerations in mind, since this study is interested in analysing Malaysia's competitiveness within the GCC context, the analysis of RCA is based on previous RCA discussions with respect to the GCC as the comparator both on global and bilateral levels. Further discussion on analysing this index, including data specification and results is presented in Chapter 5 .

2.4 BILATERAL TRADE LINKAGES: METHODS OF MEASUREMENT

Bilateral trade relations and their intensity have appeared as one of the fundamental topic in international trade. Trade intensity indexes which was firstly developed by Brown [1949], then extended by Kojima [1964], Srivastava and Green [1986] that allowed assessing whether "the value of trade between two countries is greater or smaller than would be expected on the basis of their

importance in world trade" (taken from Folfas2010). Additionally, Frankel [1997] introduced index concerning trade intensity of "regional trading blocs" in order to assess whether region exports more (as a percentage) to a given destination than the world does on average.

In order to assess bilateral relations between Malaysia and GCC countries, following index that developed by Frankel (1997) were used:

The bilateral trade intensity index for total trade is as follows:

$$T_{ij} = \left[\frac{X_{ij}+M_{ij}}{X_i+M_i}\right] / \left[\frac{[X_{wj}+M_{wj})-(X_{ij}+M_{ij})]}{[(X_w+M_w)-(X_i+M_i)]}\right] \qquad (2.2)$$

where: T_{ij} = Total trade intensity index for country *i* with country *j*; X*ij* = Exports of country *i* to *j*; Mij = Imports of country *i* from *j*; X_i = Total exports of country *i*; M_i = Total imports of country *i*; X_{wj}= Total world exports to country *j*; M_{wj} = Total world imports from country *j*; and X_w = Total world exports; M_w = Total world imports.

Rahul and Sen (2005: 24) interpreted this index as a relative measure of two ratios. According to them, the numerator represents the share of bilateral trade between country i and j as a percentage of total trade of country i (the share of Malaysian exports to GCC). This forms the numerator of the total trade intensity index. The second ratio in the denominator represents the total trade of country j with the world excluding country i as a share of total world trade excluding country i (share of the GCC exports to the world) which forms the denominator of the total trade intensity index.

In relations to this index, Tinbergen (1962) and Pöyhönen (1963) introduced gravity model which extend the original intensity index. The gravity model has been the empirical model in analyzing the determinants of bilateral trade flows between two countries or a country with the world. Basically, this model assumes that trade between countries can be determined by the gravitational force between two important elements: it is directly related to countries size and inversely related to the distance between them. Exports from

country *i* to country *j* are explained by their economic sizes, their populations, direct geographical distances and a set of dummies incorporating some characteristics common to specific flows. The model can be expressed as follow:

$$Log(Trade_{ijt}) = \alpha_0 + \log(GDP_{it} * GDP_{jt}) + \beta_2 \log(PCGDP_{it} * PCGDP_{jt}) + \beta_3 \log(Distance_{ij}) + \beta_5 (Border_{ij}) + \varepsilon_{ijt} \quad (2.3)$$

Where $Trade_{ijt}$ = Total trade (exports plus imports) between country *i* to country *j* in time *t*, GDP_i (GDP_j) = Gross Domestic Product (current US $) of country *i* (*j*),$PCGDP_i$ ($PCGDP_j$) = Per capita GDP of country *i*(*j*), $Distance_{ij}$= Distance between country *i* and country *j*, CPI= Consumer Price Index, $Border_{ij}$= Land border between country *i* and *j* (dummy variable), U_{ij}= error term; t = time period.

By using gravity model, Harrigan (1993) for example, analyses the effect of trade barriers, transport costs, tariff and non-tariff barriers on OECD imports in 1983 bilateral data for different manufacturing industries. The model is also can be used to explain other factors that might affect trade flow, such as exchange rate, technological innovation, and transport cots. Such studies conducted by Tang (2006), Fink et. al. (2005), and Loungani et. al. (2002).

Notwithstanding, taking into account the advantage of gravity model and since this study does not intend to investigate the trade flows between Malaysia and the GCC and the other factor that effect bilateral trade relations between these two countries, trade intensity index that proposed by Frankel (1997, 1998) were utilised in examining trade relations between Malaysia and the GCC. According to Gilbert (2010), intensity indices do not suffer from the same size bias, thus it can be used in analysing trade intensity across regions/time periods. He asserted that the intensity index is something like a simplified gravity model in that it attempts to determine whether a flow is greater than normal. On other hand, by using alternative measurement in analysing trade flows, such as gravity model, this would expose the result into

statistical data problem and problem of robustness. It is also discovered that, trade relations between Malaysia and the GCC have been very low and this is not suitable in analysing the flow with the gravity model.

2.5 MUSLIM COUNTRIES AND INTERNATIONAL TRADE

Since this study contributes to Muslim Countries trade and economic relationships, it is important here to discuss literature reviews on the subject and a review of trade and economic relations among Muslim countries. Although the effect of religion on trade is arguable, study conducted by Helble (2007) by using secondary data and employing gravity model, he estimated the different impacts of religious belief on trade. He came to conclusion that "religious openness has strong positive effect on trade". Therefore, it is an aspiration of OIC to strengthen the intra-OIC trade within the Muslim countries context.

There have been a number of empirical studies related to the international trade which have reflected various points of view, especially studies on the bilateral trade activities between countries. However, to date, there has been no academic study or project focusing on the bilateral trade flow between Malaysia and the Middle Eastern countries, specifically those of the GCC.

Nevertheless, in 2006 Idris conducted a study which focused on political relations between Malaysia with the individual GCC countries. He analysed Malaysia's relation with Saudi Arabia under the small's state relationship framework theory. He has contributed significantly in understanding key determining factors that influence Malaysia–Saudi Arabia relations. According to him, there are four key determining factors that shape Malaysia–Saudi relations: the nature of state and regime interest, economic determinants, religious affiliation, and membership of small state organisations. These factors, however, do not necessarily signify closeness in relations.

Up to now, there has been no study focusing on Malaysia and the Gulf region in terms of economic or trade relations. Since Malaysia and the GCC countries are both OIC members, it is important to discuss this issue within the Muslim country's context.

2.5.1 **Trade and Economic Relations within the OIC Countries Framework: A Literature Review**

The Organisation of Islamic Conference (OIC)[9] was first established on 25th September 1969 in response to the occupation of Jerusalem (Palestine) (OIC, 2009). It can be said that the organisation was established as a result of political motivation in order to support the struggle of the occupied Palestinian people in Palestine, although, they have singularly failed to do so. This however, should not prevent the organisation from moving forward to achieve its other objectives.

Presently with fifty-seven member countries and thirteen observers (OIC, 2009), the organisation has also set up new objectives during its third extraordinary session of the Islamic Summit Conference held in Makkah in December 2005 in order to face new challenges in the 21st century (OIC, 2005). Interestingly, under the objective of extensive reform in its member states, declaration was made particularly mentioning trade enhancement within its member's countries. It has set a target of over 20 percent for intra-OIC trade by the year 2015 (Third Extraordinary Session Of The Islamic Summit Conference, 2005). In 2008, intra-OIC trade had achieved 10.5 percent of global trade and 16.2 percent of the total trade of OIC countries with an average growth of 9 percent (SESRIC, 2010). Although the percentage of intra OIC trade showed an increasing trend, given the recent growth rates, there is concern over the possibility to achieve the 20 percent target.

Nevertheless, prior to this objective trade and economic cooperation and integration have been subjects of discussion among the Muslim economists

[9] In this study the term 'OIC' is used interchangeably with 'Muslim countries'.

and scholars. For example, Hassan (2002) suggested that it would be beneficial for Muslim countries to have their own common market, to be known as the Islamic Common Market (ICM), in order to enhance and boost intra-OIC trade.

The establishment of the Islamic Development Bank (IDB) in 1975 following the Conference of Finance Ministers of Muslim Countries in 1973 was intended to promote economic cooperation among OIC member countries. The bank has been successful in enhancing intra-trade and intra-investment among Muslim countries (Raimi and Mobolaji, 2008). This is supported by the findings of Bendjilali (2000) in his analysis on the effect of trade integration among Muslim countries. He particularly looked at the IDB's role in financing trade activities in Muslim countries. The IDB's trade financing, however, has not significantly increased intra-trade between OIC countries as argued by Hassan (1998) .

Hassan (1998) claimed that Muslim countries depend considerably on the industrialised countries' relations and this leads to a low level of integration between the countries. In addition, Raimi and Mobolaji (2008) argued that the diverse nature of economic structures, different levels of development, political instability, various ethnic backgrounds, and diversified social and cultural milieu among Muslim countries are the main challenges for the Muslim countries to closely integrate. Importantly, according to them many Muslim countries are labour abundant and this consequently affects the level of product diversification among Muslim countries and leads to low of inter-trade among them.

In spite of these challenges and obstacles, it is suggested that Muslim countries should intensify their economic cooperation. Although there is a suggestion of an Islamic Common Market (Hassan, 2002) or an Islamic Free Trade Area (Mohammad, 2003a) the existing economic blocks are believed to be a catalyst for Muslim countries to develop further their economic cooperation and integration. These economic blocks are in the form of regional

affiliations such as the Gulf Cooperation Council (GCC), the Arab Maghreb Union (AMU), the Council of Arab Economic Unity (CAEU), and the Economic Cooperation Organization (ECO).

Bendjilali (2000) in his analysis on OIC member countries trade relations used an econometric model to suggest that economic blocs such as the GCC have improved Muslim countries' trade relations. Hassan (2002) with the same method of analysis has also suggested that the regional economic blocks among the OIC countries are playing an important role in economic improvement among them. As a result of these empirical investigations and the existence of regional economic blocs, Khan (2005) stated that this would provide a huge opportunity for Muslim countries to integrate. Consequently, he proposed the idea of sub-regional economic cooperation between Muslim countries as well as individual country's Free Trade Agreement (FTA) with the existing economic bloc within the OIC framework. The existence of an FTA means that tariff and non-tariff barriers can be removed from the OIC block countries and, as a consequence, open up profitable intra-regional trade channels (Hassan, 1998). In addition, Ariff (1998) considered the theoretical literature and suggested that it would be beneficial for the Muslim countries to have an FTA rather than a Custom Union (CU).

According to Khalifah (1993) in her study on the structure of intra-Muslim countries' trade, the contribution of the high income Muslim countries followed by the lower- and upper-middle-income countries is dominant. She stated that any form of trade integration among Muslim countries must incorporate the Middle Eastern countries.

2.6 SUMMARY

This chapter is a theoretical background study on the area of international trade. It briefly reviews some major trade theories particularly on theory of comparative advantage. Chapter 2 is important in the context of this

thesis as it will facilitate a better understanding of the various explanations of trade patterns. The trade theories that were examined include the traditional theory of comparative advantage, Heckscher-Ohlin trade proposition and intra industry trade. The revealed comparative advantage (RCA) index which is an important measurement of comparative advantage theory was discussed and derived to facilitate this research.

From the revision of the major theories of trade, we have found that there are various explanations of trade patterns and recognise of these are relevant in the context of this thesis, which attempts to explore Malaysia's trade pattern with Gulf Cooperation Countries. In this research, we have utilised and emphasized the revealed comparative advantage index founded by Balassa in order to further understand and explore trade opportunity between these countries.

In the final part of this chapter, a review on Muslim countries trade relations and economic cooperation were briefly discussed. It explicitly shows that there is a need for Muslim countries to enhance their economic cooperation particularly in the area of international trade. Several studies have also examined the potential benefits of Muslim countries economic integration. In the view of this fact, this study lies behind the effort to explore the opportunity of enhancing and intensifying trade and economic cooperation between one of the most developing countries among the OIC member (Malaysia) and one of the successful economic bloc in the Middle East as well as among the Muslim countries (GCC economic bloc).

There have been many empirical studies related to the international trade in various points of view, especially study on the bilateral trade activities between countries. However, to date, there has been no academic study or project focusing on the bilateral trade flow between Malaysia and the Middle Eastern countries, specifically Gulf Cooperation Council. As Malaysia and GCC

have a strong indigenous factor that encourage them to enhance their trade relation.

Regardless of the aspirational position of the OIC and the IDB, trade relations between the Muslim countries are yet to develop and fulfil its potential. This is due to the fact that being Muslim or from the same religion does not imply close relation or establishing a block could be an easy task. On the contrary, there are plenty of challenges and obstacles in front of developing trade relations between Muslim countries. This study, thus, aims at investigating the dynamics and the determinants of trade relations between Malaysia and the GCC member countries.

Chapter 3 GCC TRADE RELATIONS: POLICIES, DEVELOPMENTS AND TRENDS

3.1 INTRODUCTION

The past decades have witnessed an increasing integration of the GCC economies in the world economy as the result of rising oil prices. In the meantime, GCC trade has diversified into number of product ranges. They are striving not only to depend on their oil and gas resources, but to diversify their oil and gas into oil-based products and as well as striving towards products unrelated to oil.

Generally, in this chapter, GCC countries' trade policies and issues will be discussed in order to understand the GCC economic structure and their trade patterns. GCC's worldwide trade relations, particularly those relations with important economic blocs such as the EU and ASEAN will be assessed. Discussion on the GCC's trade relations with these economic blocs is important in order to determine GCC economic integration with the global economy. Conclusions from this discussion will certainly help to evaluate GCC economic integration with its counterparts and, in particular, its relation with the Malaysian economy. Further discussion on Malaysia–GCC economic relations is discussed in Chapter 6.

The aim of this chapter is to investigate the GCC countries' economic and trade performances between the 1980s and 2008. An assessment of their trading policies, development, and future trends is also discussed in this chapter with the objective of determining and discover GCC trade patterns all over the world. Generally, this chapter will help to determine the GCC's major trading partners as well as its intra-trade relations. Assessing these relations will lead this research to determine the major trading partners of the GCC economies. This may also help identify opportunities that Malaysia could gain from the GCC's economies, specifically from its trade activities.

This chapter firstly discusses the economic background of each individual GCC country by providing an overview of their performance between the 1980s and 2007. It illustrates the region's economic growth and development. The second part of this chapter focuses on the GCC countries economic policies that have been implemented to drive their economic development, particularly their policy on trade relations and integration with the international market.

3.2 GCC HISTORICAL AND ECONOMIC BACKGROUND

Prior to a detailed discussion on the GCC economic background, we shall first provide a general overview of the establishment of the GCC. It should be stated that the GCC is a manifestation of economic cooperation and integration within the Arab Gulf region. It started after the withdrawal of British colonisation from the Gulf region in 1969. The GCC is a regional organisation, which shares common economic and political objectives.

The effort to integrate and to develop cooperation among the Gulf countries after the decolonisation era was motivated by the homogenous factors among the members' countries in terms of religion, race, culture, language and also the similarities in the social and governmental systems. Besides these factors, Janardhan and Rutledge (2005) argue that similar exchange rate regimes between the GCC countries have also led the economic integration. All these factors are recognised by the people of the six nations in the GCC union and they understand their solidarity of Arab Gulf nationality (Christie, 1987: 7)

Apart from the common characteristics and similar perspectives that unite the peoples of the Arabian Gulf, their geographical and economic circumstances have importantly contributed in establishing the cooperation. The GCC countries comprise a consolidated stretch of land covering the entire

Arabian Peninsula from the Gulf Sea to the desert land, except for Yemen in the south.

With powerful leadership by the six nations' governments in the Gulf region, in May 1981 they asserted the establishment of the Gulf Cooperation Council treaty and its charter which established its basic policies and objectives. The Council consists of six nations in the Gulf region and includes the United Arab Emirates (UAE), the State of Bahrain, the Kingdom of Saudi Arabia, the Sultanate of Oman, and the states of Qatar and Kuwait.

The establishment of the GCC was designed to achieve unity among the members in order to develop strong relationships among them and establish substantive cooperation, integration, and inter-connection among them (GCC, 2007). In other words, the purpose of the GCC was to develop economic, cultural and trading links, promote culture and tourism, reconcile their legislative and administrative practices and promote scientific and technical progress in industry, mining, agriculture, water and animal resources.

The GCC countries covered 2 percent of the world's total land area, with a combined population of 37.45 million people in 2008 (ESCWA, 2009). Their population growth as recorded by the World Bank is 3 percent per annum and UAE has recorded a higher percentage of population growth with an average of 6 percent since the year 2000. Between 2006 and 2008, GCC population gained more than 1.7 million which considered as the large increase in the region (Kawach, 2009) which is mainly consists of expatriate work force. In terms of resources, GCC countries are enriched with petroleum and gas. They hold 53 percent of proven oil reserves worldwide, produce 24 percent of world oil, and account for 40 percent of oil exports.

3.2.1 **Economic Background**

The GCC is known as the largest oil producer in the world with the largest pool of proven reserves. At the same time, these states have large gas reserves. With the abundance of oil and gas resources in the region, all the six states share almost the same economic background.

In the early years of establishment of the GCC group, it was strongly agreed that all of the nations should strive to meet common economic challenges. They have, however, also suffered from a number of economic difficulties specifically in terms of a fluctuation of oil prices that affected their economic growth. For instance, the Assistant Secretary General for GCC Economic Affairs, El-Kuwaiz, acknowledged the Gulf Cooperation Council's economic vulnerability both as a group and as individual countries (El-Kuwaiz, 1987: 76). The argument is as follows: the member countries are overly dependent on crude oil exports with little contribution from the private sector and small populations; the countries have very limited mineral resources apart from hydrocarbons, different industrial regulations, legislation and incentives across the countries; and, importantly, there is no indigenous technological base with which to encourage industrial growth and development.

Consequently, 20 years after the establishment of the Gulf Cooperation Council in 1981, the economies of the member states have continued to fluctuate, which is, in terms of economic growth rates, with the data given in Table 3-1. Considering the effect of oil price instability and the political imbalance, especially during the Gulf war in the 1990s, GCC economies have been characterised by low level of economic growth.

Although most of the countries are driven by oil-based income generation, they experienced several years negative growth rate during the 1980s with the exception of Oman (see Table 3-1). During this period, declining oil prices and the economic slowdown significantly affected economic growth in the region.

In the early 1990s, although there was a Gulf War, most of the countries recorded quite strong growth. During these years, with increasing oil prices, economic growth in the region dramatically changed. GDP growth performances improved with all the states enjoying positive growth. For instance Saudi Arabia experienced an average 4.5 percent growth over the 5 years.

Table 3-1: GCC countries economic growth rates (GDP*)

Year	*Bahrain*	*Kuwait*	*Oman*	*Qatar*	*Saudi Arabia*	*UAE*	*GCC average*	*OIL Prices (OPEC Basket*
Average 1980s	0.03	-0.87	8.26	1.75	-0.61	1.62	1.70	-
1990	7.28	-26.23	8.38	-14.64	8.33	23.56	1.11	22.26
1991	1.73	-41.01	6.04	-2.55	9.10	1.89	-4.13	18.62
1992	6.70	50.69	8.49	8.16	4.63	2.74	13.57	18.44
1993	12.87	33.76	6.14	-0.46	0.03	-2.21	8.36	16.33
1994	-0.25	8.63	3.85	1.96	0.67	6.74	3.60	15.53
1995	3.93	1.38	4.83	3.63	0.20	6.21	3.36	16.86
1996	4.10	0.60	2.89	7.60	3.38	5.38	3.99	20.29
1997	3.14	2.48	6.18	28.45	2.59	7.93	8.46	18.68
1998	4.81	3.66	2.71	9.03	2.84	0.12	3.86	12.28
1999	4.32	-1.78	-0.61	5.50	-0.75	3.14	1.64	17.47
2000	5.23	4.69	4.65	10.94	4.87	12.38	7.12	27.6
2001	4.62	0.22	5.56	6.32	0.55	1.70	3.16	23.12
2002	5.19	3.01	2.08	3.20	0.13	2.65	2.71	24.36
2003	7.25	17.33	0.34	6.32	7.66	11.89	8.46	28.1
2004	5.64	10.24	3.42	17.72	5.27	9.69	8.67	36.05
2005	7.85	10.62	4.89	9.24	5.55	8.19	7.73	50.64
2006	6.65	5.14	6.00	15.03	3.16	8.72	7.45	61.08
2007	8.07	2.51	7.74	13.69	2.02	6.06	6.68	69.1
2008	6.12	6.40	12.26	15.81	4.33	5.14	8.34	90.62

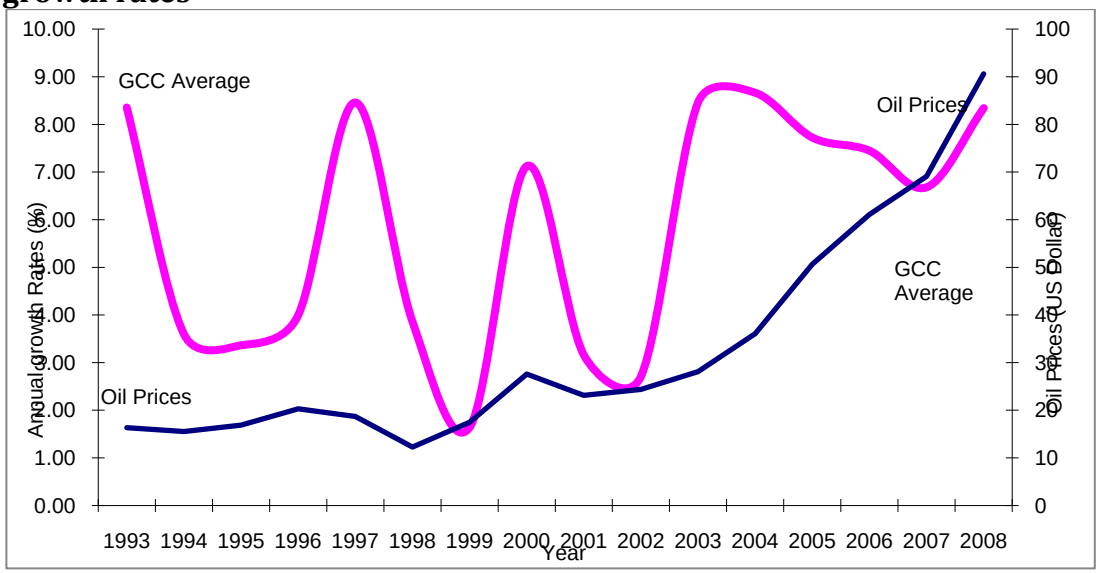
Source: World Economic Outlook (WEO), International Monetary Fund (IMF)[10]
* Annual percentage growth rate of GDP based on constant US$ 1990 prices (UN estimates).
Oil prices are obtained from OPEC basket prices[11]

In the early years of this century, the performance of the GCC economies had dramatically improved. The highest growth rates, in the years 2003 and 2004, were recorded in almost all of the GCC countries. They experienced a GDP

[10]Data for GDP annual growth rate, obtained from http://www.imf.org/external/pubs/ft/weo/2010/01/weodata/index.aspx
[11] Data for oil prices obtained from http://www.opec.org/home/basket.aspx.

growth of more than 6 percent per annum. In fact some of the countries, such as Kuwait, the UAE and Qatar recorded 11 percent, 13 percent and 20 percent growth respectively (as indicated in Figure 3-1). Obviously, the improvement in the economic growth of the GCC states in the years 2000 – 2008 was influenced by the oil-price boom, which began in 2002.

Figure 3-1: Relationship between oil prices and GCC countries' annual growth rates



Source: World Economic Outlook (WEO), International Monetary Fund (IMF)[12]
Oil prices are obtained from OPEC basket prices[13]

Apparently, the structure of GCC income over the decades has changed and has been significantly influenced by the hydrocarbons price fluctuation. It is agreed that the GCC economies are highly dependent on oil-based activity. Figure 3-1 shows the relationship between fluctuation in oil prices and the GCC average economic growth since 1993. However, the relation between oil prices and growth varies by country (as indicated in Table 3-1), Figure 3-1 clearly indicates that increasing oil prices raised the growth rates and they went down when oil prices declined.

However, in recent years they are striving to diversify their economic activities rather than depending on hydrocarbon economies, and looking

[12]Data for GDP annual growth rate, obtained from http://www.imf.org/external/pubs/ft/weo/2010/01/weodata/index.aspx
[13] Data for oil prices obtained from http://www.opec.org/home/basket.aspx.

forward towards value added opportunities in petroleum and gas production. Since the formation of the GCC bloc, the countries are diversifying their economics into petrochemical products in order to reduce their dependency on the oil and petroleum resources which are unstable and unpredictable. The GCC countries are also concentrating on the services sectors which bring huge potential to expand their economy in the future. The UAE, for example, managed to put Dubai as one of the world financial hub which according to Global Financial Centres Index it ranked 25th in 2009 (Mark Yeandle, 2009) and was ranked the 7th top global financial centre in terms of competitiveness in an assessment conducted by global auditor KPMG international (MENAFN-KhaleejTimes, 2009).

Over the period of analysis, apart from the contribution of the oil-sector to GCC GDP growth, the non-oil and public services sectors were also growing at sharply higher rates. But because the initialisation of their contribution to the growth of the total GDP, they are considered less significant compared with the contribution of the oil sector. Table 3-2 demonstrates GDP contribution by sector in each of the GCC states. It can be learnt that, although the GCC countries are diversifying their economic, which will be discussed later in this chapter, between 2000 and 2007 they are still struggling to shifting their economic dependency on oil and other sectors like services has contributed less than 20 percent of their GDP in 2007, except Bahrain. In fact services sector contribution to the GCC countries' economies shows declining trend between 2000 and 2007.

Table 3-2 shows that the oil sector has been the largest contributor to the all of the GCC countries' GDP. This sector includes oil and gas production which are the two main contributors to the GCC economies. Most importantly, the contribution of this sector increased by more than 10 percent from the year 1995 to 2007. Oil and petroleum industry has been a characteristic of the GCC countries especially Saudi Arabia, Qatar, Oman and Kuwait where the

contribution of this industry to their GDP was more than 50 percent in 2007. Only Bahrain and UAE managed to source their GDP from other sectors such as manufacturing and services industries.

3.2.2 **GCC Economic Development (GCC Economic Indicators and Economic Features)**

Moreover, the government services sector has ranked second in contribution to GCC economies during the same period, while the manufacturing industry ranked third. These indicate that: a) government involvement in economic activity has increased; and b) the GCC economies have tended to diversify into industrial sectors rather than continue to depend on oil and gas production. However, some countries, like Bahrain, Kuwait and Qatar, experienced a declining trend in their manufacturing industry sectors over the period, while manufacturing sector contributed a large portion to the UAE economy in 2007.

The finance, insurance, and banking sectors hugely contributed to Bahraini's and Kuwaiti's economic structure. As Table 3-2 depicts that these sectors ranked number four in 2007. Meanwhile, these sectors contributed less in other countries in the region. According to Rutledge (2006), the financial sector is a major growth sector in the region and all of these countries are now looking forward and putting all efforts into establishing successful financial centres in their countries. In fact, some of them have now established financial hubs, especially in the Islamic financial sector. The agricultural sector, on the other hand, provides far less contribution in those countries similar with the electricity (utilities) sector.

Despite the similarity of their economic structures, particularly in their dependency on oil, the GCC countries face different economic problems. As has been argued by Koppers (1995), the GCC is a grouping of unequal partners. By this, it is meant that, these states are unequal in terms of their economic strength.

Table 3-2: Share of sector contribution to GCC economy by kind of economic activity[14] in 1995 – 2007 (percentage distribution)

COUNTRY	Bahrain			Kuwait			Oman			Qatar		
SECTOR	1995	2000	2007	1995	2000	2007	1995	2000	2007	1995	2000	2007
Agriculture, fishing & forestry	0.90	0.76	0.32	0.42	0.36	0.22	2.78	1.96	1.32	0.98	0.37	0.11
Mining, quarrying & fuel	15.38	27.90	26.31	40.69	48.82	54.60	38.31	48.90	45.56	36.91	60.43	55.68
Manufacturing industries	17.28	11.15	12.23	10.96	7.04	4.97	4.66	5.43	10.04	8.40	5.44	7.76
Electricity, water & gas	2.55	1.87	0.82	-0.39	2.16	1.17	0.92	1.02	1.05	1.28	1.21	1.90
Construction	4.45	3.40	4.69	3.01	2.25	1.83	2.59	1.90	3.03	6.63	3.60	6.29
Total commodity sectors	41.00	45.00	44.37	55.00	61.00	62.79	49.00	59.00	61.01	54.00	71.00	71.74
Commerce, rest. & hotels	10.81	7.89	13.71	7.63	6.13	4.13	13.72	11.39	13.30	7.82	5.80	4.72
Transport, comm. & storage	7.29	6.84	5.97	4.46	4.86	6.87	6.27	5.90	6.75	3.68	3.10	3.72
Finance, insurance & banking	5.43	7.88	11.62	9.37	5.43	7.65	0.67	0.69	1.07	3.13	7.28	2.42
Total distributive sectors	23.50	22.60	31.30	21.50	16.40	18.64	20.70	18.00	21.11	14.60	16.20	10.86
Housing	9.46	9.09	7.83	0.00	5.41	5.56	6.37	5.52	2.43	6.04	0.00	5.90
Government services	17.50	15.18	11.78	0.00	0.46	10.03	13.28	9.37	6.56	22.43	12.66	8.96
Other services	6.31	5.06	3.58	23.02	20.19	2.40	9.57	7.33	7.94	1.90	-0.39	1.38
Total services sectors	33.30	29.30	23.18	23.00	26.10	18.00	29.20	22.20	16.94	30.40	12.30	16.23
Net indirect taxes	2.66	2.98	1.14	0.84	-3.51	0.57	0.85	0.60	0.94	0.81	0.51	1.16
Grand Total	100	100	100	100	100	100	100	100	100	100	100	100

Source: Arab Monetary Fund (AMF), National Accounts, various economic reports and online version (www.amf.org.ae)

[14] GDP by kind of economic activity is defined as a generation of gross value added by industrial classification of economic activities according to the International Standard Industrial Classification (ISIC Rev 3.1) (UNSD, 2008)

...Continue

COUNTRY	Saudi			UAE			Average		
SECTOR	1995	2000	2007	1995	2000	2007	1995	2000	2007
Agriculture, fishing & forestry	5.92	4.95	2.84	2.86	3.49	1.84	2.31	1.98	1.11
Mining, quarrying & fuel	31.09	37.13	51.13	30.87	33.74	34.72	32.21	42.82	44.67
Manufacturing industries	9.63	9.66	9.62	10.40	13.42	13.02	10.22	8.69	9.61
Electricity, water & gas	1.30	1.20	0.88	2.06	1.78	1.57	1.28	1.54	1.23
Construction	6.83	5.90	4.58	8.66	6.51	8.38	5.36	3.93	4.80
Total commodity sectors	55.00	59.00	69.04	55.00	59.00	59.52	51.00	59.00	61.41
Commerce, rest. & hotels	6.64	6.77	5.22	11.64	10.54	12.11	9.71	8.09	8.86
Transport, comm. & storage	4.67	4.12	3.19	6.71	6.66	6.17	5.51	5.25	5.44
Finance, insurance & banking	5.06	4.69	2.62	3.62	4.13	4.35	4.55	5.02	4.96
Total distributive sectors	16.40	15.60	11.03	22.00	21.30	22.63	19.80	18.30	19.26
Housing	7.16	6.09	3.87	10.00	7.36	7.98	7.81	6.69	5.59
Government services	18.64	16.86	13.09	10.63	9.91	7.08	16.50	10.74	9.58
Other services	1.65	1.25	2.17	2.39	2.07	1.78	7.47	5.92	3.21
Total services sectors	27.40	24.20	19.14	23.00	19.30	16.85	31.80	23.40	18.39
Net indirect taxes	1.41	1.37	0.80	0.15	0.39	1.01	1.12	0.39	0.94
Grand Total	100	100	100	100	100	100	100	100	100

Source: Arab Monetary Fund (AMF), National Accounts, various economic reports and online version (www.amf.org.ae)

By analysing the economic indicators of these GCC states individually, we found that each of them is facing different circumstances in terms of their *per capita* GDP, population and growth. Table 3-3 reveals that the total population of the GCC countries in 2008 was 36.71 million. Although, the total population for the GCC countries is measured in millions, individually, each country's population varies. Saudi Arabia stands among the Gulf nations with the largest population of 24.65 million people, comprising 67.31 percent of the total GCC population. The United Arab Emirates, Kuwait and Oman follow with populations of 4.48 million, 2.73 million and 2.79 million respectively. Bahrain has the smallest population in the region with only 778 000.

Table 3-3: GCC countries total population (in million)

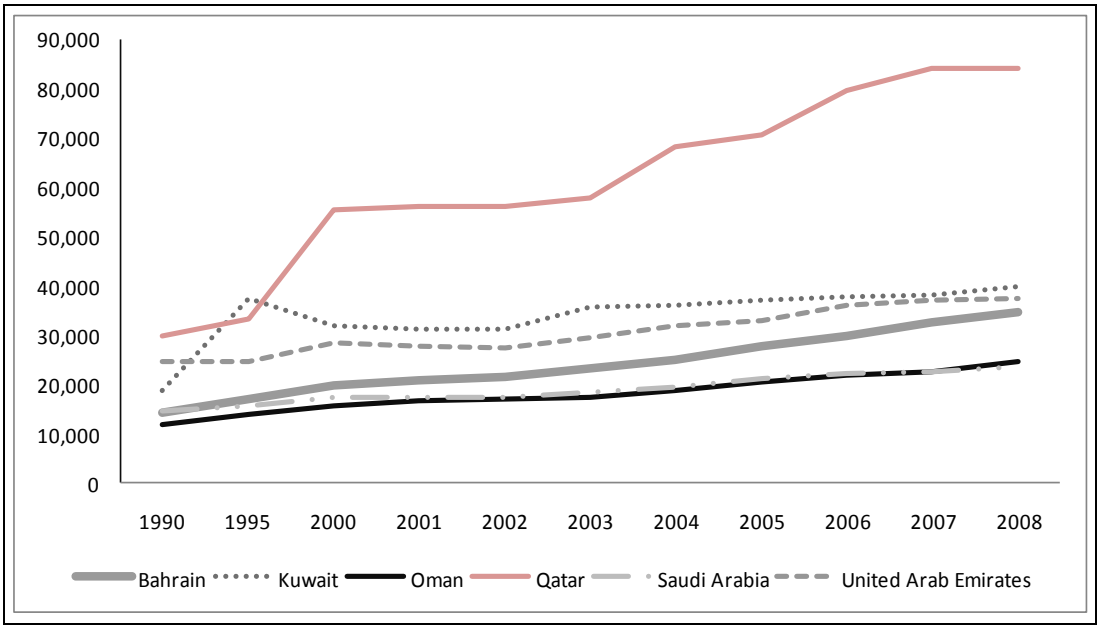
Year/ Country	2000	2001	2002	2003	2004	2005	2006	2007	2008
Bahrain	0.65	0.66	0.68	0.7	0.71	0.73	0.74	0.76	0.78
Kuwait	2.19	2.28	2.33	2.4	2.46	2.54	2.6	2.66	2.73
Oman	2.4	2.44	2.48	2.53	2.57	2.62	2.67	2.73	2.79
Qatar	0.62	0.65	0.68	0.73	0.8	0.89	1.00	1.14	1.28
Saudi Arabia	20.64	21.1	21.57	22.04	22.53	23.12	23.68	24.16	24.65
United Arab Emirates	3.24	3.41	3.59	3.77	3.93	4.09	4.23	4.36	4.48
GCC	29.74	30.54	31.33	32.17	33	33.99	34.92	35.81	36.71

Sources: IMF, annual WEO series (January, 2008)
World Bank, World Development Indicators database, April 2007
World Bank, World Development Indicators, online database, April 2010
International Financial Services (IFS), International Monetary Fund (IMF), Online Database (April, 2010)

Fluctuating economic growth with a combination of relatively high population growth, almost 3 – 4 percent during the 1990 – 2008 periods, have affected the GCC's GDP per capita. Several countries have recorded a declining

GDP per capita in the period 1990 – 1995. Indeed these falling rates continued for most of the years between 1995 and 2005 (see Figure 3-2). Nevertheless, since 2005, the GDP per capita has steadily increased and the value are over US$ 10,000 with Qatar exceeded US$ 80,000 per capita in 2008. From this, it can be learnt that this increasing trends of GCC countries GDP per capita gives huge potential for foreign investors to capture into this market as the demand from the population might increase.

Figure 3-2: GDP per capita based on purchasing-power-parity (PPP) in GCC states



Source: International Monetary Fund, World Economic Outlook Database, April 2010
Note: data for Oman in 2004 and 2005 are estimated by IMF staff.

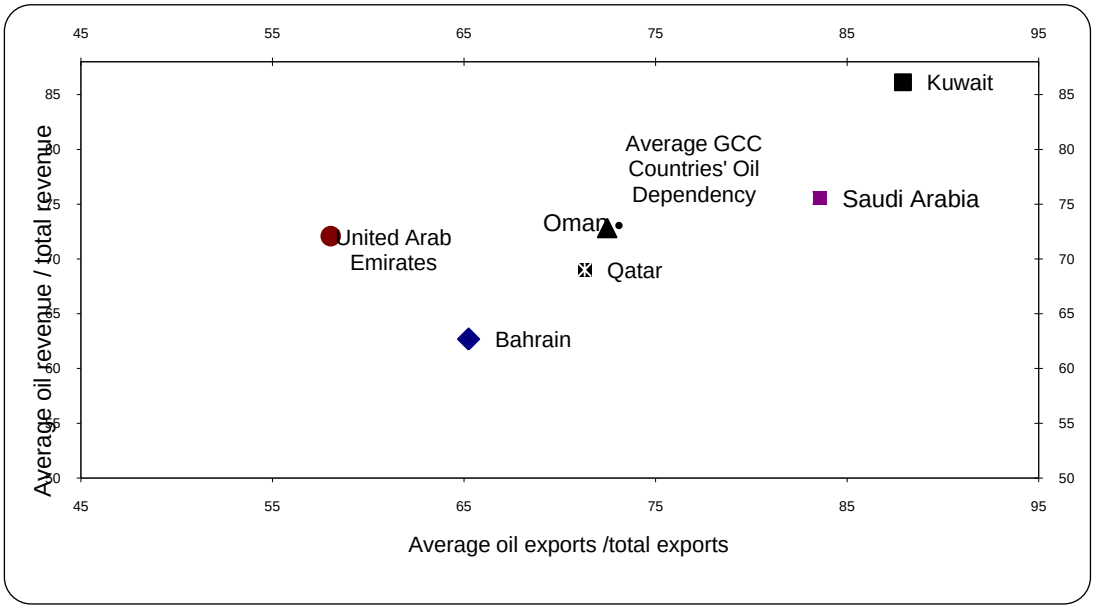
3.2.3 Oil Exports leading the GCC economies

As discussed above, the economies of the Gulf Cooperation Council are mainly accounted here by the production of oil and gas. Obviously, the GCC countries hold 40 percent of world oil reserves and produce 20 percent of world crude oil. These reserves have brought advantages to the GCC countries as compared to the other nations, especially those in Asia. By this, it means that the GCC countries are capital-intensive economies and extensively export their resources to other countries mainly to industrial economy that has high

demand on oil. In this respect, current booming of China's economy reflects oil demand from the GCC countries.

Table 3-2 shows that on average over the last ten years, mining and fuel sectors have generated almost one-third of the various GCC member states GDP. In fact, in the case of Qatar these sectors contributed over half of its GDP. Table 3-2 shows clearly that the crude oil and gas sectors are significantly contributing to the GCC countries' economic development.

Figure 3-3: Overview of oil dependency in GCC countries (Average in 1993 – 2007)



Sources: Calculated from Various Economic Report from National Authorities, Economic and Social Commissions for Western Asia (ESCWA, 1997, 1998, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008) (UN ESCWA),
Statistical, Economic and Social Research and Training Centre for Islamic Countries Database (SESRTCIC)
Arab Monetary Fund (AMF)

A country's dependency on hydrocarbons can be exemplified by the high ratio of oil exports to GDP (Askari and Dasymaltschi, 1987). Figure 3-3, thus indicates each of these GCC countries dependencies on oil.

In the 1990s, the GCC countries' oil exports averaged about 75 percent of GDP. In other words, more than half of the exports and total revenue for these countries comes from oil (see Figure 3-3). In fact, some countries like Kuwait and Saudi Arabia are particularly dependant on the oil and gas sectors.

Figure 3-3 reveals that oil exports constitute nearly 90 percent of each country's total exports, and that the oil and gas sectors contribute more than three-quarters of government revenue. In addition, between 40%-50% of both Saudi Arabia and Kuwait's GDP come from oil and gas (see Table 3-2)

On the other hand, Bahrain's dependency on oil, in terms of its ratio to revenue, was low at 65 percent (in average between 1993 and 2007). This low dependency can also be seen in the exports oil exports ratio to total exports which was 60 percent. Bahrain's dependency on oil is low because the country has far fewer oil reserves and is geographically a small country. In fact, Bahrain is also an oil importer.

3.3 GCC ECONOMIC DIVERSIFICATION

Economic diversification in the Gulf countries is highly important, as the oil production alone cannot sustain a country's economic development. In addition, population growth in the region will eventually outstrip the growth of revenues from oil exports. Indeed, the population growth of the GCC countries is one of the fastest in the world (Edwards and Dean, 2004).

In reflecting on the heavy role of oil in these economies, Abdulla (1999: 51 - 78), stated that the Gulf Economies are "rentier economies"[15] as those countries' major income comes from a huge amount of external oil rents. Therefore, he argues that these rents have been used to generate and support huge developments in their private sectors.

As Looney (1994) pointed out, economic development in the Gulf region was focused on mobilising private sector resource, diversifying their economies and creating new jobs. However, an employment creation is largely government-controlled even in the private sector. Dabdab and Mohyuddin

[15] A rentier economy is an expression of various political and socio-economic features that describe the state and the economy of the Middle East countries (Abdelkarim, 1999: 5). Wilson (2008: :134) described that one of the definition of rentier economy is business families need support from and the protection of the state (government patronage)

(1984) also emphasised the role of the public sector in the region. They stated that, as the oil revenues are directly paid in to the government's account, the government sector plays an extremely large role in developing industry in the region and hence has a big influence on economic management. Consequently, the respective public sector in the region is focusing on large-scale economy, capital intensive and export-oriented industrial schemes mostly related to the oil and gas sectors. On the other hand, the private sector is mainly concentrating on small-scale industries and internal markets.

However, Kubursi (1984) argues that there is an insignificant relationship between the growth of oil revenues and the growth of non-oil GDP in the Gulf region. He argues that, if the oil revenue is taken out of the countries' accounts calculation, the growth rate of non-oil GDP would be diminished. However, oil revenues in the Gulf region are crucially important to Gulf economies. Abdelkarim (1999: 6) stated that huge amounts of Gulf oil revenues have been utilised to finance industrialisation programmes in the region.

The success of the industrialisation strategy in developing countries has motivated the GCC countries to diversify their economies. Therefore, since the fall in the oil price in the 1970s, most of the GCC countries have been stressing the need for their economies to become more industrialised in both oil and non-oil products.

In order to encourage the diversification of these economies, several steps have been taken since the early 1980s. It is clear that most Gulf governments have geared new legislation and policies in favour of industrialisation. The incentive programmes to investors, new frameworks for laws, and subsidy programmes are among the strategies implemented to accelerate industrial growth in the region.

These industrialisation strategies and the economic conditions in the GCC countries have significantly changed since the early 1980s. The restructuring and privatisation of utilities and related services have been

placed at the top of the agenda (Fasano-Filho and Iqbal, 2003). In fact, Oman, Qatar and the UAE have definitely come to rely on the private sector and Foreign Direct Investment (FDI), which plays an important role in these countries' economic development in order to fund their mega infrastructure projects especially in the utilities services. In the mean time, the respective private sector is presently managing the services in these 3 countries which include energy and water. In Saudi Arabia the present focus is on managing the telecommunication services (Fasano-Filho and Iqbal, 2003).

Moreover, according to Davidson (2008a), in the case of Dubai economic diversification, the strategies are not only focused on the services per se. In Dubai, economic diversifications were also taken place in commercial infrastructure, light manufacturing and agriculture, free zones, tourism and leisure and real estate. These strategies are considered successful in escaping the country's economic dependency on oil and show that "Dubai has succeeded in creating a self-sustaining, multi-component economy capable of generating vast wealth independently of the oil industry" (Davidson, 2008a: : 135).

Even though huge efforts have been made towards industrialisation in the region, the banking and financial systems of all GCC countries have significantly contributed to diversification of these economics. Through the financial services sectors, GCC states have been enabled to accelerate diversification strategy in the region. Therefore, steps have also been taken to strengthen financial systems in a number of GCC countries specifically through the promotion of capital and equity markets (Fasano-Filho and Iqbal, 2003).

To facilitate the GCC economic diversification strategy, the GCC countries commit to deliver economic reforms. These reforms include: financial sector, foreign direct investment, state enterprise and privatization, and the labour market (Fasano, 2003).

Each GCC countries have taken different actions in each sector according to their economic circumstances. This can be seen in Appendix 2 , where Fasano

et. al. (2003) has summarised the GCC economic reform that took place in the GCC countries prior to 2003. The structural reforms in the GCC countries have continuously taken place at the state and regional level which were directed towards increasing non-oil export revenues and to secure public expenditures and growth performances (Rehman, 2009). The reforms in the GCC countries can be summarised as follows;

Financial restructuring;

Reforms in financial sector especially in capital market have been evolving rapidly. The reforms aim to regulate the securities markets and investment companies, revamp banking laws and ensure compliance on money laundering. In Saudi Arabia for example, a new Capital Markets Authority (CMA) was established in 2003 to regulate stock market, and investment companies, managed funds and stockbrokers. According to Wilson (2008), the regulatory model adopted in Saudi was similar to that of Malaysia where there are two separate entities to regulates stock market activities and banking sectors. In the case of Malaysia, Bank Negara Malaysia (BNM) regulates the banking sectors, while in Saudi, Saudi Arabian Monetary Agency responsible for banking system. Mean while in monitoring and regulating securities market, Malaysia has Securities commissions while Saudi has CMA.

One of the strategies in restructuring financial market in the GCC was deregulation of stock market. In Saudi Arabia for example, in 2006, rules to invest in the Saudi stock market have been liberalised so that non-national residents of Saudi Arabia are allowed to directly own individual stocks (Saudi Arabian General Investment Authority (2007) cited in Rehman, 2009). According to Rehman (2009) in the UAE, "regulation in financial market seeks to create more flexibility while enhancing shareholder protection". Under new UAE stock market guidelines, it allowed families to list only 30% stakes in private businesses (as opposed to the previous minimum of 55%).

Intensifying the role of the private sector

State enterprise and privatisation reforms in the GCC countries would directly promote the growth of the private sector. Steps towards the privatisations have been focusing in telecommunications, utilities, and transportation industries. "There have also been moves to encourage the private sector to participate in the traditionally closely guarded hydrocarbon sector. The private sector has been encouraged to invest and participate in petrochemicals and refining activities in particular" (Creed, 2006). Nevertheless, according to him, 'upstream' activities are excluded from the privatisation strategy. The privatisation strategy was implemented by gradually reducing the government stakes in these sectors and gradually adopting privatisation regulation framework (Hag and Shazly, 2010).

Foreign Direct Investment (FDI)

Another key element in developing the GCC economies has been in intensifying the foreign direct investments (FDI). FDI plays a significant role to develop a country and because of that it was very important to the countries to implement strategies that would attract and secure their operation. These strategies include relaxation of non-GCC firm equity possession, allowing foreigners to the countries' companies, as the case of Kuwait and Oman, tax reduction programme for the foreign companies, new law on the FDI, as introduced by Saudi Arabia, establish investment authority and introducing free zones, such as Jebel Ali free duties zone, Ajman free zone and Dubai Airport Free Zone in Dubai (Fasano-Filho and Schaechter, 2003, Niblock and Malik, 2007, Davidson, 2008b, Hag and Shazly, 2010). In the UAE, the authority has publicised the real estate sector by relaxing restrictions for foreign investment especially in Dubai. According to Davidson (2008b: 163), attracting investment from individual to invest in private sector has been a secret of Dubai's strategy to promote the real estate sector.

Reforms in the labour market

Labour market reforms were aimed in increasing the national labour force's participation in the private sector. The reforms are very important concerning the need to create jobs for young locals. This include labour law reforms, subsidising/providing national training in the private sectors, given financial aid for the unemployed, improving vocational training, establishing authorities to monitor employment issues, creating labour market database and introducing quotas. Interestingly, although quota system for foreign workers seems workable in securing young local labour force, Bahrain has introduced "a 'levy' system that require employers who seek to hire foreigners to pay a fee that will be channelled to a 'labour fund'. This fund will be directed toward developing the skills of the Bahraini-national" (Rehman, 2009). Meanwhile, in Saudi Arabia, it is recognised that the employment problems can only solved in the long term, therefore the Ministry of labour set a target to achieve full employment by 2030 (Wilson, 2008).

In the view of the above discussion, we found that there is no doubt that the GCC countries are definitely eager to diversify their economies and huge efforts have been made to alter their economic dependency on the oil-sector to the non-oil sector. Nevertheless, success of this economic diversification is not a focus for this research and is open to further debate. However, it might be said that, among the six GCC countries, the UAE and Bahrain are seen as the most successful countries in the region for diversifying their economies. In addition, the UAE is well known for its broad-based services sector and Bahrain has become successful regional financial centre (Edwards and Dean, 2004). From this point of view it can be concluded that, economic diversification strategy which has been taking place in the GCC countries is seen as a potential opportunity for Malaysia to expand and participate into the GCC economic development. This might help to strengthen current economic relationships between these two countries.

3.4 GCC TRADE POLICIES AND ECONOMIC INTEGRATION

Identifying GCC trade policy is complicated by the fact that trade policy decision-making tends to be highly individualised in the Gulf States since this group is an economic and political policy-coordinating forum for the six members. Nevertheless, each country is free to pass and enforce its own trade law and is not subject to enforcement by the GCC itself. However, since its establishment, there has been growing cooperation among the member states on several important issues regarding trade policy such as customs duties, intellectual property protection, standard setting, and intra-GCC investment.

Nevertheless, it is clearly seen that in the last two decades, these GCC countries have made important progress toward economic integration. Participation in the WTO, implementation of a Custom Union (CU)[16] "in which the countries must agree on tariff rates" (Krugman and Obstfeld, 2006: 232) and the elimination of formal barriers to the free movement of goods and workers are among the actions taken in all GCC countries in order to integrate better in international markets. Moreover, the GCC is also discussing further with European Union leaders to establish an EU-GCC free trade agreement. Up to now, Singapore is the only country that has signed a Free Trade Agreement (FTA) with the GCC countries (KhaleejTimes, 2008).

In terms of economic integration, the six states agreed to establish a GCC 'Unified Economic Agreement' which was approved by all the GCC states. This was implemented in January 1982 and was designed to last until 2001. With regard to the agreement, a number of practical steps were implemented specifically to reach a GCC Custom Union. The first positive action was the formation of GCC Free Trade Area whereby all member states agreed to remove tariffs on their goods and products (GCC, 2003a).

[16] The Customs Union is an organisation whereby customs duties and trade restrictions among the constituent states are abolished, and where common customs duties and external trade regulations are implemented.

Fifteen years after the Unified Economic Agreement was implemented, the GCC summit at Muscat in 2001 endorsed a new Economic Agreement. The GCC's Supreme Council agreed to adopt it in order to sustain their cooperation following periods of failing to implement the old agreement's objectives, specifically in the 1980's and 1990's (Rutledge, 2006). However, the new economic agreement had originally been set up in order to cope with the overall development of the GCC and to reflect local, regional and international economic changes (GCC, 2003a). This renewal agreement according to Wilson (2006) was most important and 'ambitious program' that aims to make the Arab Gulf region as a major economic power in the Middle East.

With the agreement, the GCC's supreme council agreed the implementation of several strategies of integration. These included the creation of a customs union, Common GCC Market, Monetary Union, *etc*. The GCC custom union came into force in January 2003. These are discussed in the proceeding sections.

3.4.1 **GCC Custom Union**

At the December 2001 GCC Summit, GCC Supreme Council approved the establishment of GCC States' Custom Union which would be started in 2003. The GCC Custom Union was established with the purpose of enhancing economic cooperation between the member nations. This is specifically aimed at trade activity between the nations by reducing tariffs and duties as well as removing trade barriers (Gulf Cooperation Council. Majlis al-A`lá., 2003).

Therefore, since 2001, all six Member States had been working hard towards unifying their tariff structures by adopting the across-the-board Common External Customs Tariff (CET) of five percent on all foreign imports, as part of the GCC's Custom Union agreement, which came in to force in January 2003. Prior to the Custom Union implementation, some GCC countries imposed tariffs of 15 to 20 percent or higher on imported products, and this lead to their

tariff levels differently to each other. For example, in 1999 Saudi Arabia's average tariff was 12.6 percent while Oman's was only 4.8 percent (Rutledge, 2006).

Importantly, with the implementation of the Custom Union all goods and products from the GCC states are freely exported and imported without any restrictions, except where veterinary and agricultural quarantine regulations apply, or where prohibited and restricted goods such as alcohol and pork are involved (GCC, 2003b).

In anticipation of the GCC custom union, most of the GCC States have dropped their tariff on imported goods by 30 – 40 percent. For example, Bahrain has reduced customs tariff for imported goods from 7.7 percent in 2000 to 5.3 percent in 2007 (WTO, 2009b).

3.4.2 **WTO Participation**

The World Trade Organisation (WTO) is an international body designed to supervise and liberalise international trade. Generally, WTO membership requires lowering subsidies (especially to farmers), reducing export duties, protecting property rights and opening up service sectors, including insurance and financial intermediaries to foreign competition. These policies are now incorporated in the GCC custom union which came into force in 2005. Therefore, WTO membership is an important step for the member states in order to realise their establishment of a GCC custom union.

However, in spite of this union, the member states have negotiated and become WTO members individually rather than as a group. Saudi Arabia was the last country to become a WTO member in 2005, whereas other GCC countries were members soon after the establishment of the WTO in 1995 (replacing GATT). Bahrain and Kuwait were the earliest countries participating the WTO since after 1995, while Qatar and the UAE joined in 1996, and Oman in

2000. Table 3-4 summarises GCC countries entries into the World Trade Organisations.

According to Wilson (1998: 22), an individual GCC's participation in WTO is seen as potentially damaging to the organisation itself. He argues that, "as a regional organisation, it is meant to promote economic co-operation amongst its member and bring some measure of harmony in external trade relations". An indeed, it is found that GCC economic integration in the world's economy has been slow.

Table 3-4: GCC countries and WTO participation

Country	**Year**
Bahrain	1995
Kuwait	1995
Oman	2000
Qatar	1996
Saudi Arabia	2005
United Arab Emirates	1996

Source: www.wto.org

In light of recent progress, participation in the WTO should help the GCC to develop and expand its trade relations with the rest of the world as well as enhance its economic integration, in particular with other Middle East and Gulf states. Another major gain from the WTO entry for GCC countries was that being part of the international trading system would facilitate commerce, reduce transactions uncertainties and increase the confidence of foreign investors (Wilson, 2008). It is worth stating here that participation in the WTO by the GCC States has positively affected their economic integration.

3.4.3 GCC Single Market and Monetary Union

With regard to the new agreement on economic integration as previously mentioned, the GCC is seen as one of the fastest growing regional economic bloc in the world. The GCC has been successful in implementing free

trade agreements between its members as well as creating a customs union which has been notoriously difficult to realise in other economic bloc.

The success of the Customs Union had led them to establish a GCC Common Market and a Single Monetary Union. The GCC common market was targeted to come into force at the end of 2007. However, implementation had to be postponed due to several issues that needed to be resolved first. In January 2008, the GCC common market was launched and it is expected to attract more investment to the region (Ghafour, 2008).

As has been mentioned in Article 3 of the GCC new economic agreement (Gulf Cooperation Council, 2003), they have to equalise several important areas in order to implement a single market (SM). These areas include free movement of GCC nationals; employment in private and government sectors; social insurance and pension schemes; education, health and social services; the exercise of all professions and crafts; exercise of all economic, investment and services activities; private real estate ownership; free movement of capital and tax treatment; and the incorporation and purchase and sale of shares.

Meanwhile, the GCC monetary union, which is part of its economic integration, is scheduled to come into force in 2010. Monetary union is a part of the common market. The intention to create their own currency union shows the member states' commitment to achieving economic union. It will be highly beneficial for the GCC common market when the implementation of a single currency in the region comes into reality. A single currency in the region will reduce transaction costs for foreign exchange, eliminate exchange rate risk, and promote pricing transparency. As a result, the implementation of monetary union would increase business competition, thus promoting trade, investment and growth in the GCC countries (Rutledge, 2006).

By 2010, the implementation of a Gulf Monetary Union is marked as a new step for economic integration and would be a milestone to enhance economic development. Nevertheless, only four of the six GCC countries have

agreed to a monetary union, namely Saudi Arabia, Bahrain, Qatar, and Kuwait (Toumi, 2009). It should be noted that the developments so far indicates that Gulf Monetary Union will not come into reality for some time; as the political will as well as economic and financial infrastructure is still not built.

3.4.4 **Inter Regional GCC Relation.**

GCC countries are seen as a valuable economic partner for some economic regions as well as countries in the world. It has been claimed that there are a number of economic regions as well as individual countries that are eager to ally themselves with Gulf economies in particular over trade and economic activities.

The EU, for example, is now negotiating with the GCC to have a free trade agreement to be called GCC-EU FTA. In fact, the EEC (European Economic Community is the predecessor of the EU) and the GCC had been signing co-operation agreements from 1989 to 2001, and in 2001, a revised agreement replaced the 1989 agreement. The old agreement's objective was to facilitate and strengthen market access, specifically trade relations, between the two parties (Chirullo and Guerrieri, 2002). The cooperation agreement also leads the two parties to negotiate the establishment of a Free Trade Agreement. As a customs union, both the GCC and the EU have to deal collectively rather than make an individual agreement.

Unfortunately, the EU-GCC talks were suspended by the end of 2008. This was due to the EU's insistence on political demands especially in human rights issues (EU-GCC, 2009). Although, the talks were then resumed, recent development showed another suspension of the talks. This is due to issue on the rights of imposing exports duties (Carey and Mahdi, 2010, May 26). EU countries have added a clause preventing GCC countries to impose duties on EU exports in the future.

By having a GCC-EU free trade agreement, the GCC expects to have greater access to fuel market distribution in the EU and a new market for textiles and light machinery.

Although the GCC is a customs union, which requires interested countries to have FTA to deal with them as a group, with an exception, recent developments show that GCC countries prefer to negotiate a free trade agreement with the United States (US) as an individual entities rather than as a group. Some of the countries like Oman and Bahrain signed free trade agreements with the US in 2004 and 2006 respectively. Meanwhile, the UAE has been in the process of negotiation with the US since 2004. The negotiation expiration was due in 2007, but no decision has yet been announced.

In terms of the GCC's relations with other countries, Dar and Presley (2001: 1175) state that GCC member states show different degrees in both inter-regional and intra-regional economic integration. They concluded that Bahrain and Oman are the well-integrated countries among the GCC members. Both nations, empirically, have traded successfully with the other GCC states, and have actively opened up new markets with new trading partners from the developing world. These contrasts with the other GCC countries which tend to prefer trading with industrial countries. China and India are the two major growing industrial economies with which these GCC countries are looking forward to expand trade. In fact, companies from these two countries are already investing and setting up new business in the GCC (Ramady, 2007).

On the other hand, GCC trade and economic relations with the ASEAN countries are less significant as compared to other regions and countries. However, both GCC and ASEAN countries are looking forward to strengthen the relations in various aspects including politics and economics (Yong, 2006). Although oil and gas are the main sources of imported goods from the GCC to ASEAN countries, they have different interests in the Gulf. This is despite the fact that some of the ASEAN states are oil-producing countries (Malaysia,

Brunei, and Indonesia) and have less dependency on oil imports. Other ASEAN countries like Singapore, Thailand and Philippines are the major oil-importers from the Gulf region, as they are non-oil producers (Parreñas, 1998).

3.5 TRADE PERFORMANCES

In this section, GCC trade performances and trends are analysed over a 20-year period. This analysis is important in order to figure out GCC economic integration and assess these countries' relations in the global market.

Table 3-5: GCC's External Balance (% GDP)

Year / Country	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE
1980	8.87	44.05	25.00	..	36.21	43.45
1990	20.95	-13.13	19.63	..	9.03	25.12
1995	11.52	10.39	8.48	1.01	9.69	5.94
2000	25.05	26.33	27.83	44.95	18.75	17.98
2001	21.85	15.76	21.15	36.82	15.80	11.45
2002	15.69	8.01	20.56	32.22	17.40	9.61
2003	18.22	17.63	18.59	33.23	22.00	13.88
2004	19.28	24.54	14.04	36.09	26.75	14.14
2005	23.10	35.71	27.01	34.80	33.08	21.16
2006	25.92	41.34	24.81	20.70	31.41	23.67
2007	n/a	35.36	n/a	n/a	27.12	n/a
2008	n/a	n/a	n/a	n/a	35.14	n/a

Source: World Bank, World Development Indicators (WDI) (November, 2007, September, 2009), ESDS International, (Mimas) University of Manchester.

In understanding the trade performance, GCC balance of payment performances is important to analyse. Table 3-5 shows that the GCC states experienced balance of payment surplus between 7 percent and 24 percent on their external balances as a percentage of GDP from 1980 to 2008. On average, Kuwait had the lowest surplus with 7.10 percent, and the UAE had the highest of around 18% over the 25 years (see Table 3-5). However, in recent 10 years, Qatar trade balances as a percent of GDP has been the highest among the six

nations (the data for Qatar is between 1994 and 2006 only, due to data unavailability from the country).

Table 3-6: GCC Trade Openness (Trade as a percentage of GDP)

Country	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	United Arab Emirates
1980	239.35	112.65	100.31	..	90.89	112.41
1985	191.61	96.42	87.01	..	66.71	89.65
1990	210.16	103.01	74.83	..	72.23	107.60
1995	152.46	94.32	79.59	87.67	65.45	131.99
1996	164.12	91.47	85.58	83.51	67.04	151.43
1997	148.58	92.45	88.63	84.45	65.57	156.99
1998	128.49	94.95	91.69	91.06	56.47	148.13
1999	141.83	85.37	86.25	85.73	58.12	134.99
2000	153.83	86.62	90.53	89.61	68.55	128.65
2001	142.79	86.84	93.40	94.97	63.95	133.92
2002	148.16	81.23	94.45	88.47	64.95	136.71
2003	145.54	86.56	94.47	90.16	70.23	144.09
2004	164.72	89.30	99.85	92.25	78.59	165.47
2005	175.96	92.24	98.67	101.71	88.67	164.13
2006	171.98	89.64	101.14	95.55	95.06	150.4
2007	136	72.8	97.8	84.7	84.7	157.7
2008	143.3	79.9	n/a	94.0	n/a	n/a

Source: World Bank, World Development Indicators (WDI) (November 2007, September 2009), ESDS International, (Mimas) University of Manchester.
Data for 2007 and 2008 were obtained from World Development Indicators (WDI) (2010) online version

From Table 3-5, it is important to note that trade surpluses in the GCC countries are heavily influenced by oil and gas prices and that some of the countries have had negative trade balances over the last twenty years. For example, in the last 5 years, in conjunction with the oil price increases, all the GCC states almost doubled their external balances compared to the 1990s. On the other hand, Saudi Arabia has experienced numerous negative trade balances especially in the late 1980's due to oil price fluctuations. It can be seen that Saudi Arabia experienced seven consecutive years of negative external balances between 1983 and 1989.

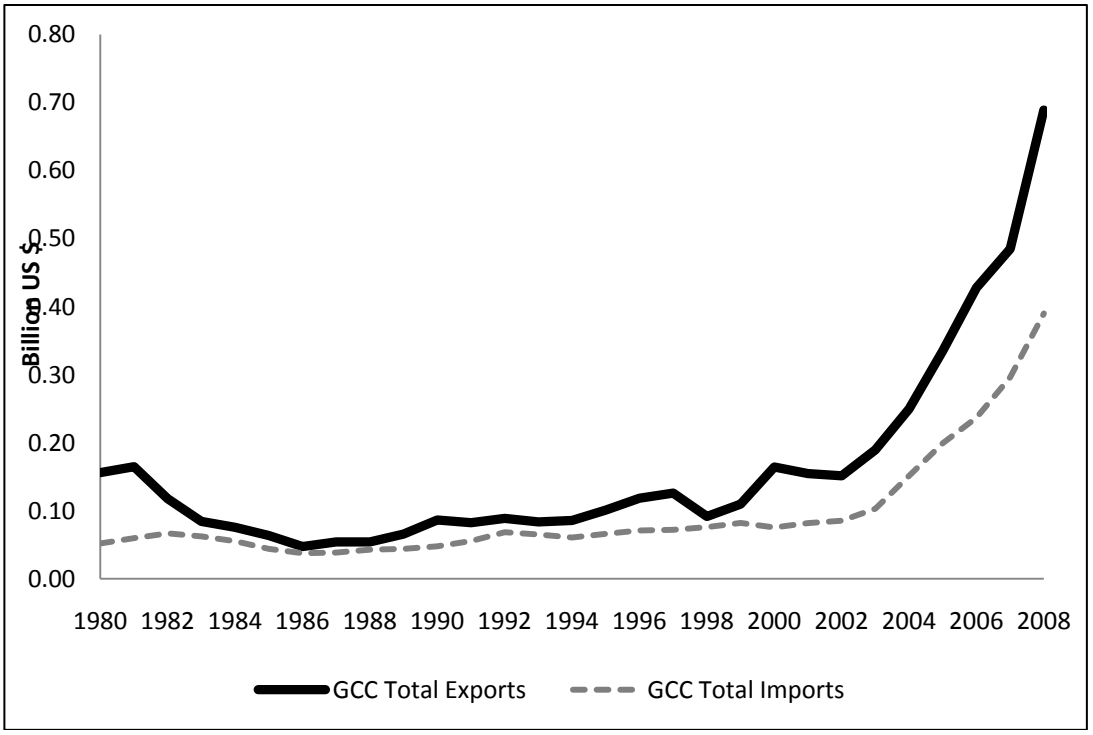
In respect of GCC states trade openness, trade as a percentage of GDP among the GCC states is assessed based on World Bank data. The GCC states' economies are generally accepted as being open-trading economies. Trade

openness in the GCC states in 2006 ranged from 89.64 percent in Kuwait to 171 percent in Bahrain (see Table 3-6). It is worth noting that, on average, Bahrain has shown the highest trade openness for the last 20 years. In fact in the years 1980 to 1982 Bahrain's trade as a percentage of GDP was more than 200 percent. This certainly shows that Bahrain is considered as having a high dependency on international trade, followed by UAE and Oman.

3.5.1 **GCC Trade Trends**

According to Wilson (1998: 2), "The GCC countries exports composition are highly concentrated, while imports are diversified." In other words, GCC exports to all over the world are highly dominated by crude oil and petroleum productions, while imports come in the form of various products including foods, consumer products, and military essentials.

Figure 3-4: GCC Trade trends between 1980 and 2008



Source: International Monetary Fund (IMF), Directions of Trade Statistic (DOTS), November (2007), ESDS International, (Mimas) University of Manchester.
Data for 2007 and 2008 were obtained from International Monetary Fund (IMF), Directions of Trade Statistic (DOTS), Online version, (April, 2010)

Over the two decades, the value of GCC's imports has been significantly linked to the volume of exports. The fluctuation of oil prices implies significant changeability of the total exports and imports in GCC countries. As Figure 3-4 shows, with the oil price booming in the early 1980s, imports increased substantially as total exports increases. This has also happened in the recent five years, when the oil prices have risen by more than 200 percent and total imports have doubled compared to the late 1990's. Meanwhile, when oil prices dropped, particularly in 1986, the total exports and imports of the GCC decreased to below 50 billion US dollars.

There is no doubt that hydrocarbon prices certainly influence the GCC trade for both import and export trends. In fact, over the last half century oil prices has been the major factor for the economic development in the GCC states (Wilson, 2006). As has been stated by Rathmel, "falling oil prices have brought down imported goods, particularly military and arms equipment, from US$15 billion in 1987 to just over US$5 billion in 1994" (taken from Dar and Presley, 2001: 1170). It has also been argued that despite extensive crude oil exports from the GCC countries, petrochemical products are becoming intensively important exports for the GCC in the recent years (Wilson, 2004: 81). In the meantime, according to Wilson (2006), it is expected that the GCC states will move away from dependency on oil until around mid-twenty-first century, which "GCC market growth will bring about the rapid development of the service economy and light manufacturing" (Wilson, 2006).

Individual domestic problems have implied different trade trends between the six nations. For example, 1991, when the Gulf War was in progress, Kuwait imports of goods and services were dominated by demands for military essentials. At the same time, exports from Kuwait drastically dropped and it took almost two years for Kuwaiti oil's production to be back on track after the war (Wilson, 1998: 4). On the other hand, the Gulf War gave Saudi Arabian oil exports an advantage. As Iraq's oil production fell in 1991, the volume of oil

exports from Saudi Arabia rose significantly in order to compensate for oil demand (Wilson, 1998).

Although the exports and imports from most GCC states show a common trend, interestingly, that of the United Arab Emirates (UAE) shows a vital foreign trade trend, especially from the late 1990's onwards. It is recorded that the total UAE's exports and imports amounted to more than US$100 billion. With the highest import and export values after Saudi Arabia the UAE's imports were notably high. This different trend in the UAE's balance of trade is due to its strong re-exporting business in the Middle East region. The United Arab Emirates is the largest importer in the Middle East, bringing in more goods than larger economies.

3.5.2 **Direction of Trade**

The GCC trade direction is significantly influenced by the global economic circumstances and changes. Since the growth of China, India and other Asian economies, GCC trade with these economies has also become highly significant. As a consequence, the trade direction has moved away from the US and Europe to the South and Far East economies. Over the last ten years, we can see that GCC trade volume from the GCC to Asia has increased significantly. Indeed, GCC imports from Asia increased from 24.52 percent in 1980 to 33.90 percent in 2008, whilst imports from the US to the GCC have declined from 16.7 percent to 9.85 percent (see Table 3-7).

Although the GCC imports from Europe show a declining trend over the years, Europe had been the major source of GCC imports between 1980 and 2005, but has been overtaken by Asia since 2005. Imports from the EU comprised 27.26 percent in 2008, while Asia sourced the GCC imports for 33.90 percent in the same year. In the meantime, the Middle Eastern states, of which the GCC states are a part, has not been contributing huge import volumes to the GCC where over the 28 year period, imports from these Middle Eastern

countries have only averaged 10 percent and in 2008 it accounted 11.31 percent of total GCC imports.

On the other hand, the direction of GCC's export, as expected, has been largely directed to Asia, the fastest growing region. Exports achieved the considerable amount of 46.67 percent in 2008, whereas only 7.26 percent and 8.92 percent were directed to the EU and the US, respectively. The increasing value of GCC exports to the Asian region is due to the rise of oil demand from the fast developing countries in Asia, especially China and India.

Despite the strong bilateral relationships between the GCC and the EU, export from the GCC to the EU was the other way around. In 1980, Europe was the largest export partner with the GCC. This situation was reversed when the volume of exports from the GCC states declined considerably after the mid 1980's.

Table 3-7: GCC Direction of Trade (1980 - 2006)

Share of GCC Imports by Origin

Origin / Year	1980	1985	1990	1995	2000	2005	2006	2007	2008
ASIA	24.52%	27.85%	24.96%	24.11%	26.07%	30.06%	31.49%	32.75%	33.90%
European Union	37.53%	36.52%	34.15%	34.13%	33.23%	32.46%	30.20%	30.27%	27.26%
Middle East	8.83%	9.42%	11.13%	10.37%	11.68%	10.78%	11.49%	10.87%	11.31%
United States	16.70%	13.07%	14.62%	12.96%	12.97%	11.19%	11.31%	10.15%	9.85%
RoW	12.42%	13.14%	15.14%	18.43%	16.05%	15.50%	15.51%	15.96%	17.68%

Share of GCC Exports by Origin

Origin / Year	1980	1985	1990	1995	2000	2005	2006	2007	2008
ASIA	30.60%	43.61%	36.74%	36.30%	42.68%	42.25%	45.40%	45.42%	46.67%
European Union	36.79%	22.36%	15.25%	11.31%	11.29%	12.06%	9.42%	8.33%	7.26%
Middle East	9.83%	11.11%	13.73%	9.63%	8.43%	12.50%	10.78%	11.46%	10.33%
United States	11.70%	4.49%	14.30%	9.28%	10.59%	9.73%	8.57%	8.35%	8.92%
RoW	12.42%	13.14%	15.14%	18.43%	16.05%	15.50%	15.51%	15.96%	17.68%

Source: International Monetary Fund (IMF), Direction of Trade Statistic (DOTS), November (2007), Economic and Social Data Survey (ESDS) International, University of Manchester.
International Monetary Fund (IMF), Direction of Trade Statistic (DOTS), Online Version, (April, 2010)

3.5.3 **Trade with Asian Leading Economies**

GCC trade trends with Asian countries are much influenced by Asian economic growth, exchange rate volatility, and booming oil prices. However, the direction of trade from the GCC to Asia varies between the countries. Table 3-8 and Table 3-9 demonstrate the GCC trade trends to selected Asian economies.

Table 3-8 reveals that, among Asian countries, Japan has been the major importer for the GCC countries since 1980, with the total amount of US$ 130 billion in 2008 with Saudi Arabia being the main beneficiary compared to the other Gulf economies especially in 2008. The total amount of Saudi exports to Japan in that year was worth almost US$46 billion (Direction of Trade Statistics, IMF,April 2010a). Apparently, oil and gas have been the main exports from the GCC to Japan and this affected the value of imports for Japan in the mid 1980s as a result of the oil price's decline (Wilson, 1998: 26).

Interestingly, GCC exports to China and India have increased substantially in recent years compared to the early 1980's. As both countries have been growing rapidly, their demand for oil and petrochemical products has risen extensively in order to support their industrialisation development and economic boom. In subsequent of the rapid industrialisation process in the Asia, supply-demand for energy in the Asia was imbalance whereby energy production in the Asia could not sustain their economic development, hence rising import demand from the major oil producer, which GCC countries are most of them (Pradhan, 2008: : 107). Since 2005, China and India have contributed more than two-thirds to global demand for oil (Janardhan, 2008: 18-19) and India is "a giant consumer and importer of oil and gas" from the GCC (Pradhan, 2008). According to Pradhan (2008), Asian concentration on importing oil from the GCC countries is partly due to geographical locations between those economies and also contributed by the slower development of

oil markets in Asia. This is definitely different from the US and Europe whose source their oil imports from diverse regions including South America, the Middle East, Africa, Europe and Russia.

In terms of South East Asian imports from the GCC, it is clear that Singapore remains the major ASEAN trading partner of these states. Their total exports to Singapore have doubled compared to those of other states in the region except for Thailand. Most Singapore imports from the GCC are used for oil refinery complexes which are the largest in Southeast Asia and are used to distribute oil and gas to other countries in the region as well as for Singapore's own usage. However, "the refinery complexes are no longer being expanded as the country concentrates more on services and highly specialised activities rather than processing and manufacturing" (Wilson, 1998: 26).

In addition, the reason behind the large imports of crude oil from the GCC to South East Asia is due to the different quality of crude oil produced in the Gulf region. According to Parreñas (1998: 22), the Gulf countries produce lower quality crude oil as compared to oil-producers among the South East Asian countries. The GCC produces mostly sour (light and heavy) grade with more desulphurisation. Therefore, there is huge demand for light sour grade crude oil from the GCC to Asian countries for it to be refined into sweet crude oil.

To a certain extent, GCC's imports from Asia show similar trends with the export trend to Asia, where the giant economies in Asia, including Japan, India, Korea, as well as China form a high proportion of the GCC's market. However, by 2008, China was dominating the GCC markets with amount of import exceeded US$ 42,647 million. This consequently, affected Japan's share. In the meantime, imports from South East Asia especially from Malaysia and Indonesia, have recorded their highest increase. This illustrates that the efforts made by the Islamic Development Bank to promote trade with other Muslim countries has succeeded significantly (Wilson, 1998: 27).

Table 3-8: GCC Countries' Exports Direction to Leading Asian Economies (US$ million)

Country / Year	*1980*	*1985*	*1990*	*1995*	*2000*	*2005*	*2006*	*2007*	*2008*
China	183	37	141	1,117	5,923	18,215	24,148	27,934	49,487
India	1,084	1,760	2,473	3,348	3,017	7,220	22,949	37,608	47,963
Indonesia	1,288	888	192	629	2,401	4,066	4,861	4,919	7,025
Japan	33,144	18,413	20,368	21,130	38,266	68,222	87,790	89,647	130,861
Malaysia	688	452	180	247	1,272	2,947	4,283	4,064	5,904
Pakistan	1,304	1,376	1,062	1,122	3,370	6,463	8,131	9,856	12,924
Singapore	6,478	2,388	4,393	4,445	7,897	16,434	20,206	21,066	32,795
South Korea,	4,865	511	3,532	7,591	19,173	37,921	44,828	50,063	78,539
Thailand	1,513	373	744	1,791	4,253	12,207	14,530	15,196	22,043

Source: Direction of Trade Statistic (DOT), International Monetary Fund (IMF), November (2007), ESDS International, (Mimas) University of Manchester.
International Monetary Fund (IMF), Direction of Trade Statistic (DOTS), Online Version, (April, 2010)

Table 3-9: GCC's Imports from Leading Asian Economies (US$ Million)

Year / Country	*1980*	*1985*	*1990*	*1995*	*2000*	*2005*	*2006*	*2007*	*2008*
China	589	447	1,141	2,714	3,844	15,346	19,742	30,392	42,647
India	774	719	962	2,319	3,062	12,474	16,804	22,536	32,050
Indonesia	28	120	401	1,070	1,140	1,751	2,220	2,842	3,564
Japan	9,138	8,600	6,671	5,996	7,643	15,067	17,507	23,398	29,823
Malaysia	134	140	369	869	883	2,952	3,656	4,761	6,291
Pakistan	326	293	304	490	621	1,813	2,228	2,907	3,947
Singapore	699	480	562	476	831	4,880	4,814	5,476	6,695
South Korea	1,226	1,232	1,493	2,464	3,125	6,720	7,727	11,995	16,530
Thailand	245	332	729	901	905	2,840	3,836	4,843	6,401

Source: Direction of Trade Statistic (DOT), International Monetary Fund (IMF), (April, 2010).

Despite the increasing trade volumes between the GCC countries and Asia, there is no formal dialogue between the two regions, either between the GCC and the Association of South East Asian Nations (ASEAN) or the GCC and the Asia Pacific Economic Cooperation (APEC) nations. However, the formal relations are only low level such as those with Muslim countries in Asia such as relations with Pakistan, Bangladesh, Malaysia and Indonesia. Importantly, these bilateral relations have not been trade relations, but rather they have been focusing more on political and financial relations (Wilson, 1998: 26). With the current trade progress between the two regions, "both now have the opportunity to reopen a new era of cooperation. Like the ancient silk and spice routes, increased trade and investment flows are helping to restore ancient links" (Tong, 2008: 20-23) . As has been suggested by Dar and Presley (2001: 1177), intra-GCC trade is positively linked with developing countries and they urge to the GCC countries to seek a greater alliance with trade partners from Asia.

3.5.4 **Trade with Muslim Countries**

Since the GCC member countries are members of the Organisation of Islamic Conferences (OIC) countries and it is the focus of this study, it is worth discussing GCC trade relations with Muslim countries. Apart from the Middle Eastern region, Muslim countries'[17] are scattered all over the world, from east to the west and from the African region to Russian territories. There are 57 Muslim countries in total, excluding Palestine.

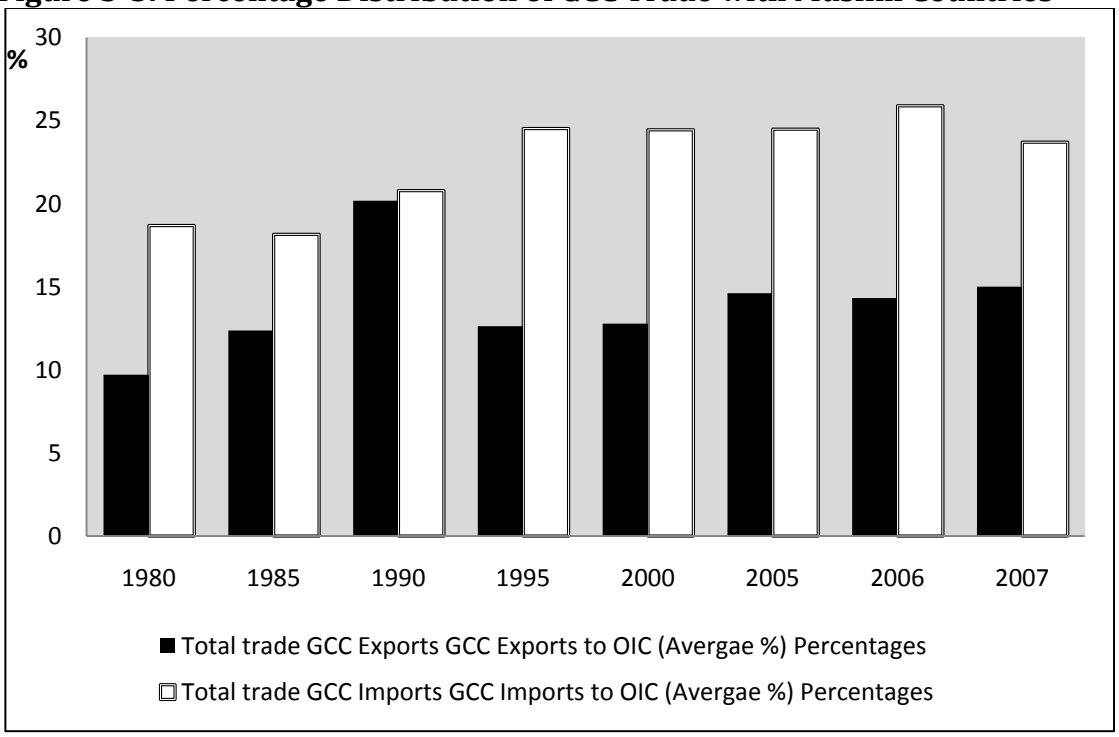
As members of the OIC, their trade relations with others Muslim countries are considered remarkable. The graph in Figure 3-5 shows that GCC imports from Islamic countries are substantially higher than their exports to these countries. It has been said that, since 1980, with an average of 20 percent

[17] By definition, Muslim country is a country inhabited by major Muslim community and ruled by Muslims. However, the 57 Muslim countries here is defined as a country which is involved and become a member of the Organisation of Islamic Conferences (OIC)

from the GCC's total imports, imports from the Islamic world have followed in a constant trend. Among the six GCC countries, Bahrain has had the largest share of imports from Muslim countries. Meanwhile, in terms of exports from GCC countries to Muslim countries, it shows that the proportion is around 10 percent to 15 percent, which is 5 percent lower than import distribution.

The increasing trade between the GCC countries and the Muslim world is probably the result of GCC trade relation with the other Arab countries, which are a part of the Arab Free Trade Area. According to the OIC trade report (2007), an emergence of free trade agreements in the 1990s between regional Muslim countries have established gradual free trade areas. This has led to a removal of quantitative restrictions, the progressive removal of customs and taxes of equivalent effect for industrial products. As a result, trade barriers between the nations may be removed.

Figure 3-5: Percentage Distribution of GCC Trade with Muslim Countries



Source: SESRIC Database (2008)

GCC economic relations with the Muslim world are at considerable importance in order to raise living standard and income for Muslim populations' countries. As has been stated by the former GCC Secretary General,

Dr. Abdullah Bishara (2003b), GCC states particularly Kuwait, Saudi Arabia, and the United Arab Emirates (UAE), enhanced their partnerships with other Islamic countries by establishing funds to provide loans and grants to Islamic countries.

3.5.5 **Intra GCC Trade**

In this section, Intra-GCC trade is assessed to obtain a better picture of their economic integration. To repeat, one of the objectives of the establishment of the GCC is to enhance intra-trade among the GCC members. Therefore, it is not surprising that from the beginning, GCC supreme council has announced the establishment of the GCC Free Trade Area in 1983 followed by their action to remove all tariff and non-tariff barriers. Subsequently, the agenda to improve integration within the Gulf countries moved away from a free trade area strategy to a customs union. This has been implemented since 2003.

However, despite its relative success and the achievements from their economic integration strategy, evidence of their intra-trading activities shows in different trend. Trade among the GCC countries is comparatively lower than in any other regional economic bloc due to several challenges that have faced the GCC states. The structure of their economies is identified as the main challenge inhibiting their trade relations. As has been discussed the economic structures of these countries is almost identical in that they depend on crude oil and petrochemical products for their main exports (Dar and Presley, 2001: 1146). Therefore, the demands on each country cannot be fulfilled by the other countries, as they produce the same product and export the same commodities. In spite of their diversification attempts, the GCC states still depend on oil-based production.

Nevertheless, in order to increase their intra-trade relations, a comprehensive strategy has been introduced in which include choosing their major trade partners from within the GCC region. For instance, Oman and Saudi

Arabia have succeeded in sustaining its trade integration with the UAE, their major trading partner in the region. This is due to Dubai's role in serving as a re-export centre for goods and products to the region (Wilson, 2004).

Statistically, Table 3-10 shows how GCC trade is integrated. It reveals that the integration varies from one economy to another. Bahrain has shown the highest degree of intra-regional trade integration. In the past, particularly in the 1980s, its trade with the other GCC economies was about 41 percent of its total trade with the world.

According to Dar and Presley (2001: 1165), less dependence on oil and gas has lead Bahrain to extend it economy to the services sector and other non-traditional sectors such as offshore financial services and tourism. In 1975 Bahrain established an offshore banking sector as a part of its diversification strategy in the service sector (Fasano-Filho, 2003). As a non-oil producer in the region, Bahrain tends to import its oil and gas needs from its neighbourhood and her financial services are attractive to other GCC economies to deal with. However, Bahrain's trade with other GCC countries has been diminishing over the last 20 years. This is shown by an intra-GCC trade integration ratio of 41percent in 1980 falling to 18.9 percent in 2006.

Furthermore, Oman has also been well integrated with the other GCC partners. Since the 1980s, Oman's trade with the other five Gulf countries has ranged between 7.9 percent and 45 percent. In the 1990s, it recorded the highest integration with its GCC partners. Almost 45.4 percent of its total trade was conducted with the GCC countries.

Table 3-10: GCC Intra-Trade Ratio

Country / year	*1980*	*1985*	*1990*	*1995*	*2000*	*2005*	*2006*	*2007*	*2008*
Bahrain	41.0%	36.7%	29.0%	26.3%	14.2%	18.7%	18.9%	12.9%	13.2%
Kuwait	3.9%	3.1%	1.1%	4.8%	4.8%	4.6%	4.7%	9.0%	10.4%
Oman	7.9%	9.1%	45.5%	19.0%	17.5%	16.4%	15.1%	21.5%	21.4%
Qatar	3.3%	2.5%	6.5%	9.3%	7.7%	16.7%	15.4%	7.6%	6.7%
Saudi Arabia	1.9%	3.8%	5.0%	5.6%	4.0%	3.1%	3.1%	15.4%	16.5%
United Arab Emirates	3.4%	4.6%	4.6%	6.0%	5.6%	4.1%	4.2%	5.5%	5.5%

Source: Calculated from Direction of Trade Statistic (DOT), International Monetary Fund (IMF), (April 2010), .

Overall, the other GCC countries have shown less trade integration among themselves. This is particularly so for the high-income countries in the region such as Saudi Arabia and Kuwait. Table 3-10 exhibits which countries have failed to show any significant trade integration with their partners in the Gulf region. Ironically, Saudi Arabia, as the main founder behind the establishment of this cooperation in the 1980s has not integrated well and the idea of a free trade area formation has not been foremost in its priorities. Despites the low level of intra-GCC trade, Wilson (2006: 177) argues that the pace of the economic integration process in the GCC have sped up, this is spurred on by the event of September 11, 2001.

3.6 CONCLUSION

Over the period of observation from 1980 to 2008, all the GCC states faced similar economic challenges in that they needed to move away from dependency their on oil and gas economies into diversified economies by increasing the role of the private sector as well as attracting more foreign direct investment. Their heavy dependency on oil and gas resources can be seen by examining their GDP statistics as well as their major exports over the years.

Moreover, Bahrain has worked hard to get away from an oil-based economy towards other economic sectors such as services and tourism as their oil and gas reserves are close to depletion. Although Saudi Arabia's oil reserves and production are more than enough to support their economic growth and development, Saudi's *per capita* income is the lowest as compared to the other five states as its population is by far the largest in the GCC; job opportunities is the main challenge for the Kingdom.

Economic diversification is the main objective for all GCC states as a result of oil price fluctuations and industrialisation strategies have been adopted to boost their economies. These embrace a number of structural reforms in order to move away from their dependency on oil and gas. The key

structural reforms that the GCC countries are focused on are their financial sector, foreign direct investment (FDI), privatisation and labour market reform.

The emergence of the GCC in the 1980s, to a certain extent has lead all the members achieving economic improvement. Despite the political and security factors which surrounded the Gulf during the early 1980s, it is economic factors which have contributed to the progress of regional integration. The strengthening of this regional economic bloc, may help to reduce regional conflicts particularly in the Arab world (Al-Yousif, 2004: 22).

From the establishment of the GCC free trade area to the foundation of the GCC Custom Union in 2003, the Gulf Cooperation Council is seen as a successful economic group in terms of economic integration strategies. However, despite these achievements, trade performance within the intra-GCC circle has yet to achieve the main GCC's economic objectives.

As the GCC group is very small in market size and produces mainly petroleum-related products, it is important to the larger economies like Saudi and the UAE to seek other trade partners and expand their market internationally. The Asian market is a new export destination for most of the GCC countries, while Europe remains the major source of imports for the GCC states.

Finally, with the major actions taken by the GCC member countries to liberalise their market and integrate with the global economy, the GCC states are seen as a bright and prospective market for the developing countries, especially in Asia.

Chapter 4 THE MALAYSIAN ECONOMY: AN ASSESSMENT OF ITS TRADE RELATIONS AND GLOBALISATION STRATEGY

4.1 INTRODUCTION

Malaysia is a fast developing country, which had experienced a high annual growth rate above 7% before the 1997 Asian crisis. Because of these high rates of growth, there has been a deep and rapid structural transformation of the Malaysian economy as well as of its socio-economic structure. This transformation can be seen from its economic diversifications from agricultural-based sector to manufacturing sectors.

Malaysia is a multiracial society with a population of 27.7 million, in 2008, comprising Malays, Chinese, Indian, and other ethnic groups. Malaysia is a parliamentary democracy with a constitutional monarchy nominally headed by the paramount ruler customarily referred to as the King (*Yang di-Pertuan Agong*).

With various economic plans, Malaysia has experienced huge improvement in all economic sectors from agriculture to industry and has managed to diversify its GDP from that of a traditional to an industrial-based economy. In addition, its major income has diversified into international trade activities through its export-oriented industries. To date, Malaysia has been actively seeking new trade partners in order to boost its exports and increase income from trade. In 2008, the WTO ranked Malaysia number twenty-one in its table of world exporters and number twenty-eight in its list of the world's leading importers (WTO, 2009a).

In this chapter, the Malaysian economy is discussed in order to provide background on Malaysian economic development and achievement. An emphasis on its economic planning gives an insight into Malaysian efforts to develop the nation after British de-colonisation in 1957.

This is followed by a discussion on Malaysia's trade policy and its liberalisation strategy. Malaysia's economic integration in regional affiliation is also discussed. In order to understand Malaysia's trade relations with the global market, a section on Malaysia's trends is also examined. Thereafter, there is a discussion on its economic relations with the OIC countries, particularly on their trade contribution to the country. Since Malaysia is actively expanding its trade, this discussion will further help an exploration of new trade partnerships, particularly in the GCC market.

4.2 THE ECONOMIC BACKGROUND

With an average of 5.5 percent gross domestic product (GDP) growth, Malaysia is respected as being amongst the strongest economies in the Southeast Asian region. In terms of population, in 2007, the Malaysian population was about 27.2 million with a 2 percent growth and this definitely reflected its GDP per capita (BNM, 2008). As has been revealed by the Malaysian government (see Table 4-1), in 2007 the Malaysian GDP *per capita* was the third highest in the South-East Asian region with US$ 6,721 (ASEAN, 2008).

Table 4-1: Malaysia – Recent Selected Key Economic Indicators

Year	2005	2006	2007	2008
Population (million persons)	26.1	26.6	27.2	27.7
Real GDP growth (%) at current prices[1]	5.0	5.9	6.2	4.6
GDP (RM Billion)	447.8	474.4	504.919	528.311
Per capita income (RM) (USD)	18,966 5,008	20,841 5,681	23,301 6,721	25,784 7,737
Employment (million persons)	10.9	11.2	11.4	11.6

Source: Bank Negara Malaysia (BNM), Annual Report 2007
Bank Negara Malaysia (BNM), Annual Report 2009

Historically, the Malaysian economy was hugely contributed by natural rubber and tin resources as a primary sector for its GDP, public sector as well as export revenues. In early 1957, when it became independent from the British occupation and became known as the Federation of Malaya, the industrial

sectors were marginal and primarily dependent on unprocessed (raw) rubber and tin exports.

The Malaysian economy that was formerly highly dependent on the primary sector for its GDP, nevertheless has changed to that of a diversified economy with the industrial sector acting as the engine of growth, along with a more commercialised agriculture and modern services sector. This was the result of a series of well-planned development strategies following independence in 1957.

For the last 50 years, the Malaysian economy has gone through a huge transformation, particularly in its economic diversification. Since then, economic diversification has been driven by a series of long-term development plans, called Outline Perspective Plans (OPP). To date, three Outline Perspective Plans have been implemented: the first is known as the New Economic Policy, 1971-1990 (NEP); the second is the National Development Plan, 1991-2000 (NDP); and the latest is the National Vision Policy, 2001-2010 (NVP) (Economic Planning Unit Malaysia, 2008). To facilitate these long-term plans, medium-term objectives were set out in each five-year economic plans. Generally, all the objective of these economic plans is to ensure that the Malaysian economy is robust and can diversify the economy from a dependency on traditional to modern economic activities.

Consequently, the structure of Malaysian economics has totally changed in comparison to 50 years ago especially in the industrialisation sector and the modernisation of its agricultural sector. This can be seen from the recent percentage Malaysia's GDP in Table 4-2. In 2007, services sector contributed large proportion of Malaysian economy which accounted 53.58 percent and then it followed by manufacturing sector with 30.13 percent. It then followed by Mining and quarrying sector which comprises 8.44 percent. The role of agricultural sector was diminishing where it only constitutes 7.64 percent of Malaysia's total GDP.

Table 4-2: Percentage distribution of Malaysia's GDP by kind of activity (2007)

Sector	Percentage
Agriculture, Forestry and Fishery	7.64%
Mining and Quarrying	8.44%
Manufacturing	30.13%
Construction	3.02%
Services	53.58%

Source: Bank Negara Malaysia (2008), Annual Report 2007.

Since 1980, under Mahathir Mohammad's (4th Malaysian Prime Minister) legacy, Malaysia has developed a significant number of economic sectors from agricultural to heavy industry. The National Car Project (PROTON) is one of the heavy industries which created substantial employment opportunities. The establishment of this heavy industrial in 1980s has also contributed to the Malaysian exports although it has been not significant. Malaysia began exporting the PROTON and most of the exports have been directed to United Kingdom, South Africa, Australia and Middle East (Arshad, 2002). Although the car project has been in existence for over 20 years, recent development shows that PROTON has not been successful. This is partly due to failure in Management, and having less comparative advantage in the industry[18]. PROTON is having difficulties to compete with the global market due to the automotive industry is already well-established trade. Established global car manufactures especially from Japan, the United Stated and Western Europe are currently dominating the world's export market.

Apart from the heavy industrial sector, the agricultural sector has also been emphasised in Malaysia's economic development. Through the

[18] With regard to this issue, following a review of Malaysia's National Automotive Policy in 2009, Malaysian government intends to increase the national cars' competitiveness in the global market by encouraging the manufacturer to have global strategic partnership (MITI, 2009b).

agricultural modernisation, Malaysia has shifted its dependency on natural rubber to other crops and diversified into palm oil, cocoa, pepper, pineapples etc. In fact, now, Malaysia is now the largest producer and among the major exporter of the palm oil products all over the world.

It is also important to emphasise here that, in 2006 as a part of its economic development planning, Malaysia launched its ninth Malaysia Plan (9MP), an economic blueprint that would take Malaysia to 2010. This plan endeavours to move the country closer to its great vision of attaining developed nation status by 2020. The 9MP consists of five major thrusts (Economic Planning Unit, 2006):

Thrust 1: To move the economy up the value chain. It is an approach focusing on various sector of economy especially in manufacturing, services, and agriculture sectors in order to achieve higher value added and increase total productivity. New potential areas of economy and wealth will be generated particularly in technology and knowledge-based field in order to develop human capital.

Thrust 2: To raise the capacity for knowledge and innovation and nurture 'first-class mentality'. These strategies are focusing on the education system improvements especially in term of the access and quality. This thrust also emphasize on the R & D enhancement and potential.

Thrust 3: To address persistent socio-economic inequalities constructively and productively. The main objectives of this thrust are to decrease the incidence of poverty to 2.8 per cent and to reduce the socio-economic imbalance between regions and ethnic disparities.

Thrust 4: To improve the standard and sustainability of the quality of life. Supporting strategies include improvements to housing, urban services, health care services, transportation system, energy and water system.

Thrust 5: To strengthen the institutional and implementation capacity. Good governance in booth sectors, private and public sector will be

implemented in order to achieve the high level of integrity and more attention will be given to improve delivery system.

These major thrusts of the 9MP, especially the first two thrusts are very important, in order to strengthen economy in a near future and improve the competitiveness of Malaysia's trade vis-à-vis other countries. Clearly, manufacturing, agriculture, and R & D product-based are the main contributor to the Malaysian trade with a high potential to expand in the near future.

Importantly, through the 9MP, Malaysia is keen to expand their ability to compete in international markets as well as liberalise its economy and place more emphasis on the financial sector:

> *Support to sectors that might have a comparative advantage. Recent liberalisation in finance, for instance, was aimed especially at encouraging issuance of Shariah-consistent instruments to strengthen Islamic finance. Assets of Islamic banking institutions made up 11.8% of all assets in mid-2006, and 47% of all outstanding bonds in September 2006 were Shariah compliant. (Economic Planning Unit, 2006)*

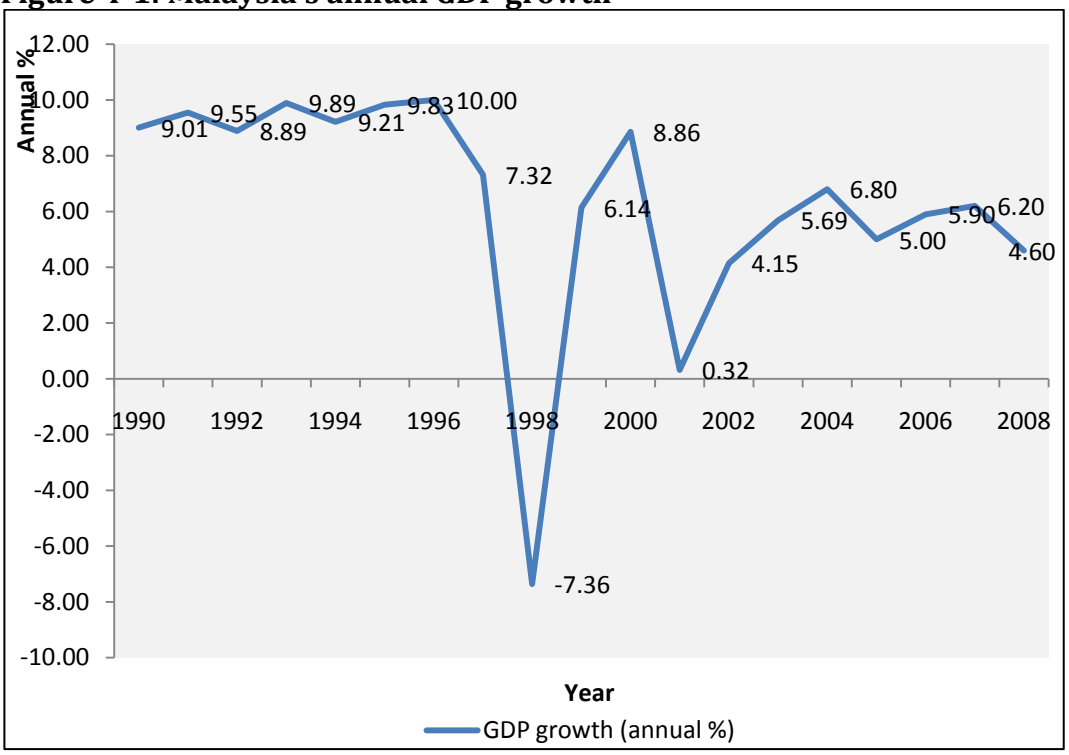
The 10th Malaysian economic plan is due to launch at the end of 2010. Nevertheless, Malaysia has launched New Economic Model in March 2010 with the aim to transform the country from a middle income to an advanced nation in 2020 (National Economic Advisory Council, 2010). Under the New Economic Model, it is also emphasised that, Malaysia is planning to integrate more with the West Asia and Asia in terms of trade relation in order to diversify their market sources and destination.

4.2.1 **Economic Performance**

Prior to the Asian Financial Crisis in 1997, Malaysia had been dubbed as one of the miracle economies in East Asia. It had experienced tremendously high growth rates averaging 8.9 percent during the period 1988–96 in addition to low inflation rates of about 3–4 percent per year. Moreover, its emphasis on

the manufacturing sector and electronics in particular had increased employment level in the country. However, the huge financial crisis that hit the Asian markets, particularly Malaysia, totally changed its economy, particularly its financial sector. As a consequence, Malaysian economic growth declined from over 7 percent per year to negative growth in 1998 (see Figure 4-1).

Figure 4-1: Malaysia's annual GDP growth



Source: World Bank Databanks, World Development Indicator (WDI) April (2008a), Economic and Social Database Services (ESDS) International, University of Manchester.
World Bank Online Database, World Development Indicator (2010)

After the crisis, the Malaysian economy together with its neighbouring countries in the region had to deal with various exogenous shocks which were significantly affecting economic growth. During these ten years, important events such as the terrorist attacks in 2001, the Iraq invasion and the Afghanistan wars, the Bali bombing in 2003, Severe Acute Respiratory Syndrome (SARS) in 2003, the Indian Ocean tsunami in 2004 and the crude oil price increase in 2004 – 06, delivered significantly negative impacts to the world economy (Ramasamy and Yeung, 2007). Despite these circumstances,

between 2001 and 2007 the Malaysian economy has been enjoying an annual average growth of 4,5 per cent (Ministry of Finance, 2007).

In 2008, Malaysian economic growth was in fairly stable with 4.6 percent and in 2009, due to world economic downturn amidst to financial turmoil, Malaysian economic growth was preliminary reported to contract by 1.7 percent (BNM, 2010).

In terms of GDP contribution, for the last 5 years, between 2004 and 2008, services sector was the major contributor to economic growth with an annual growth rate of 7.56 per cent, followed by manufacturing at 5.26 per cent, agriculture, forestry, livestock and fisheries at 3.78 per cent, construction 0.76 and mining at 0.7 per cent. On the demand side, domestic demand has been major contributor for the Malaysian economy. In 2008, domestic demand was responsible for nearly 89 per cent of the GDP. Government consumption and investment played an important role, making up nearly 25 per cent of GDP.

4.3 AN OUTLINE OF MALAYSIA'S TRADE

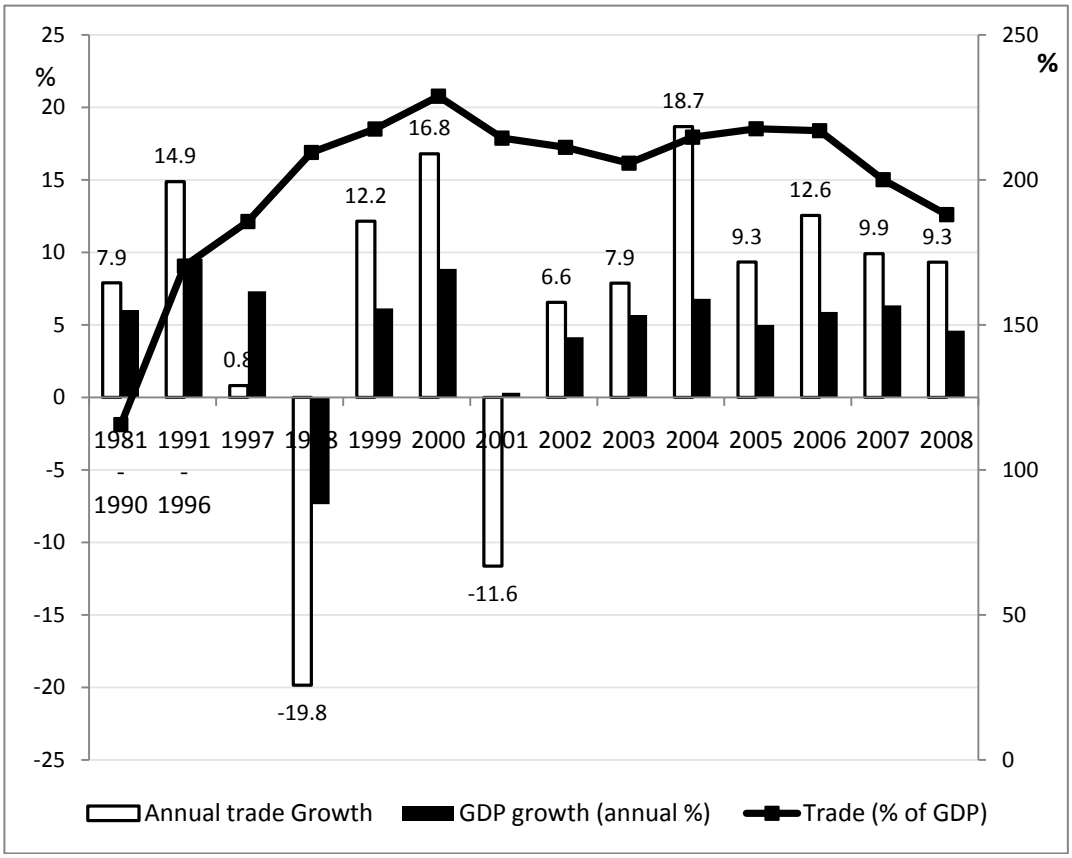
Generally, Malaysia's trading policy has focused on the international arena. It remains an example of a dynamic transformation from a primary producing economy into a rapidly industrialising one. Over the past three decades, Malaysia has taken concrete steps to enhance the openness of its economy, and to date it is one of the most open economies in the world. This outward-looking approach has certainly paid off and accelerated economic growth and development. "Malaysia remains one of the most integrated countries in the world, with trade accounting for 210 percent of GDP" (World Bank, 2008c).

As has been noted by the World Bank, Malaysia's trade openness – its total trade as a percentage of GDP – has increased over time, which is evidenced in Figure 4-2. Over the twenty-year period, it shows that the average ratio of total trade to GDP has improved significantly and recorded by more than 100

percent. Average growth in the ratio in the period 1981 – 1990 reached 115 percent and has increased by 170.2 percent over the period 1991 – 1996. The financial crisis in 1997 certainly affected the Malaysian economy. This can be seen from the decline in GDP as well as in total trade in 1998 (see Figure 4-2). However, Malaysia's trade ratio against GDP shows a different trend. This has been increasing and exceeded 200 percent by 2007.

From 2000 – 2008, the average growth ratio was 215 percent. This was expected as a result of the liberalisation and globalisation of the world economy. If we take the share of total trade in GDP as an indicator of trade liberalisation, Malaysia certainly has achieved a relatively rapid process of trade liberalisation and economic globalisation. By this, it means that Malaysia has been actively implementing an open economy and consistently integrating with world markets.

Figure 4-2: Malaysia trade openness and trade growth as compared to its GDP growth (1981 – 2006)



Source: World Bank, IMF, National Accounts, WTO.

4.3.1 **Malaysian Trade Directions**

Since the beginning of Malaysia's industrialisation strategy in the 1980s, there has been a considerable concentration of trading partners with the major import sources acting as the main export destinations: Singapore, Japan, the United States and the European community accounted for nearly 73 per cent of the Malaysian export market in the 1980s.

Table 4-3: Malaysia's top ten trading partners (1980, 1990, 2000, and 2008), value in US$ Billions

Partner country	*1980*	*Share (%)*	*Partner country*	*1990*	*Share (%)*
World Total	23.80	100.00	World Total	58.60	100.00
Japan	5.43	22.80	Japan	11.56	19.73
European Union	4.31	18.09	Singapore	11.06	18.88
United States	3.75	15.76	United States	9.93	16.95
Singapore	3.74	15.73	European Union	9.25	15.79
Germany	1.05	4.43	United Kingdom	2.76	4.71
United Kingdom	0.94	3.96	Germany	2.42	4.12
Netherlands	0.84	3.54	S. Korea	2.10	3.59
Australia	0.78	3.27	Thailand	1.74	2.96
Saudi Arabia	0.73	3.05	Australia	1.50	2.56
Thailand	0.51	2.14	Hong Kong	1.49	2.55
Partner country	2000	Share (%)	Partner country	2008	Share (%)
World Total	180.37	100.00	World total	356.44	100.00
United States	33.83	18.76	Singapore	46.71	13.10
Japan	30.11	16.69	United States	41.90	11.76
Singapore	29.81	16.53	European Union	41.07	11.52
European Union	22.82	12.65	Japan	41.06	11.52
S. Korea	6.90	3.82	China	39.13	10.98
Thailand	6.73	3.73	Thailand	18.37	5.15
Hong Kong	6.70	3.72	S. Korea	15.09	4.23
China	6.27	3.47	Indonesia	13.51	3.79
Germany	4.90	2.72	Hong Kong	12.65	3.55
Netherlands	4.69	2.60	Germany	11.36	3.19

Source: World Bank, Direction of Trade Statistic (DOTS), (Edition: December 2009) Economic and Social Database Services (ESDS) International, University of Manchester.

An outline of the country's trading partners is presented in Table 4-3 which shows that Malaysia's major trading partners were the United States, Japan, the EU and Singapore. Although, the proportion of trade between Malaysia and these countries was more than 70 percent in 1980, there was a decreasing trend of trade direction in 2007. Despite being Malaysia's top 5

trading partners in 2008, the trade share for the United States, Singapore, the EU and Japan had declined to merely 50 percent.

It can be seen that, in recent years, East Asian economies, comprising South Korea, Hong Kong, and China, have become increasingly important for Malaysia's trade. According to Yusoff (2005), Malaysian trade flows have been directly correlated with the FDI especially in the manufacturing sector. This contributed by the investors in importing their intermediate goods from their home country. For example, electrical and electronic manufacturer from Japan, for instance, Sony, prefers to import intermediate electric and electronic goods such as computer chips etc from Japan. As a consequence, it contributes to the Malaysian imports sources and in the mean time; investing firms are more likely to export the processed products back to their country of origin and other related markets. Hence, Japan, the US, ASEAN, East Asia and the EU have been the major sources of foreign direct investment in Malaysia.

4.3.2 **Malaysian Exports**

Between 1980 and 2008, Malaysia's exports increased substantially and made a major contribution to Malaysia's balance of trade account. Total exports in 1980 were around US$ 12.9 billion and more than doubled in value to US$ 29.42 billion by 1990, growing at an average annual rate of approximately 9.3 percent. In 2000, total exports were valued at US$ 98 billion registering an increase of 16.1 percent per year during the 1990s. Since then Malaysian exports have increased enormously and totalled US$ 176.21 billion in 2007. This represents a 10 percent average growth rate between 2000 and 2007 (see Table 4-4).

Table 4-4: Malaysia's Total Exports and Exports Growth (1980 – 2008), value in US$ Billions)

Year	Total exports	Annual growth
1980	12.96	9.3%[1]
1990	29.42	13.4%[2]
2000	98.15	16.1%
2001	88.20	-10.1%
2002	93.39	5.9%
2003	104.97	12.4%
2004	126.51	20.5%
2005	140.98	11.4%
2006	160.67	14.0%
2007	176.21	9.7%
2008	199.51	13.2%

Source: World Bank, Direction of Trade Statistics (DOTS), (edition, December 2009), ESDS International, (Mimas) University of Manchester

[1]Average annual exports growth in 1980s

[2]Average annual exports growth in 1990s

In terms of directions of Malaysia's exports, most have been directed into ASEAN countries and the US, followed by the EU and Japan. These markets which accounted for about 80 percent of Malaysian exports in 1980 have long been markets for Malaysia's exports. The trend, however, is one of decline. This can be seen in Table 4-5. Malaysian exports to these countries had fallen to 60 percent in 2008.

To be more precise, in 1980, ASEAN imported 25 percent of Malaysian exports, the EU market 20 percent, Japan 18 percent, and the US 13 percent. In 1990, although ASEAN countries remained the biggest market for Malaysia's exports, and accounted for 29 percent of its total exports, most Malaysian exports to ASEAN were destined for Singapore. The US was the second largest market at 17 percent, followed by Japan at 16 percent, the EU at 15 percent, and East Asia at 12 percent.

Table 4-5: Malaysia's Direction of Exports (Major Exports Markets), value in US$ billion.

Year	United States		European Union		Japan		ASEAN		Others	
	Total exports	Share	Total exports	Share	Total exports	Share	Total exports	Share	Total exports	Share
1980	2.12	16.35%	2.41	18.58%	2.96	22.82%	2.94	22.71%	2.53	19.54%
1990	4.99	16.95%	4.56	15.51%	4.51	15.31%	8.66	29.45%	6.70	22.77%
2000	20.16	20.54%	13.75	14.01%	12.78	13.02%	26.07	26.56%	25.39	25.87%
2001	17.82	20.20%	12.48	14.15%	11.77	13.34%	22.13	25.09%	24.00	27.21%
2002	18.83	20.16%	11.97	12.82%	10.53	11.28%	24.29	26.00%	27.78	29.75%
2003	20.54	19.57%	13.22	12.60%	11.22	10.69%	26.06	24.82%	33.93	32.32%
2004	23.75	18.77%	15.96	12.61%	12.78	10.10%	31.74	25.09%	42.29	33.43%
2005	27.76	19.69%	16.62	11.79%	13.18	9.35%	36.77	26.08%	46.65	33.09%
2006	30.19	18.79%	20.54	12.78%	14.24	8.86%	41.88	26.06%	53.82	33.50%
2007	27.53	15.62%	22.69	12.88%	16.09	9.13%	45.31	25.71%	64.59	36.66%
2008	24.93	12.50%	22.53	11.33%	21.47	10.76%	51.53	25.83%	79.03	39.68%

Source: calculation from World Bank, Direction of Trade Statistics (DOTS), (edition, December 2009), ESDS International, (Mimas) University of Manchester

In terms of Malaysia's exports composition, the structure has substantially changed compared to 25 years ago. In the 1980s, Malaysian exports were highly concentrated on raw material and mineral products such as rubber, fuels, tin etc. By 1990, these commodities accounted for only 33 percent of Malaysia's exports while Malaysia had begun to concentrate in exporting manufactured goods. The share of these product in Malaysia's total export increased from 26 percent in 1980 to 55 percent in 1990 (Yusoff, 2005). Moreover, in 2006 crude and mineral materials' contribution to Malaysian exports composition fell to merely 13 percent in 2006 while that of manufactured products increased to 76.7 percent (MITI, 2006a: 13). It is believed that government efforts in the 1980s and onwards, specifically during the Mahathir era of modernisation by the implementation of the government's industrialisation policy and enhancement of domestic economy through its strategy of export-oriented development, have paid off. Since the 1980s, the Malaysian government has been diversifying and intensifying its export-based economy and focusing on manufactured exports. This has substantially changed its trade structure.

In 2008, manufactured goods made up huge share to composition of Malaysian exports, accounting for more than 74 percent. Meanwhile, minerals and agriculture products only contributed 13.2 percent and 10.3 percent of Malaysian total exports, respectively. Among manufactured products, electronics, electrical machinery and appliances make up 41.8 percent of Malaysia's total exports (BNM, 2009). In fact, Malaysia's competitiveness has been in these products and successful in attracting large inward investment by multinational firms to invest in manufacturing industry particularly in electric and electronic products (National Economic Advisory Council, 2010).

Nevertheless, it is argued that, over-dependence on the electric and electronic products increases the vulnerability of the Malaysian external trade due to fluctuation demand for these products (Ramasamy and Yeung, 2007).

Therefore, in Malaysia's third Industrial Master Plan (IMP3), Malaysia continues to liberalise and integrate its trade in regional and global level by enhancing market access through multilateral and bilateral agreements so that promotes a stable international environment. In addition, the diversification of Malaysia's external sector to include services exports has been actively promoted (MITI, 2006b).

4.3.3 **Malaysian Import Trends**

As a developing country, Malaysia's dependency on the global economy cannot be avoided. This can be seen through Malaysian imports over the years. Table 4-6 reveals the trend of Malaysian imports for the last two decades. Over the last 20 years, Malaysia's imports have been increasing. In 1980, they amounted to around US$ 10 billion with an average annual trade growth of about 12.47 percent between 1980 and 1989. Their value doubled in the early 1990s and growing approximately 12.68 percent per annum.

Table 4-6: Malaysia's Imports Trends and Rates of Growth (1980 – 2007), value in US$ Billions)

Year	Total imports	Annual growth
1980	10.84	12.47%[1]
1990	29.18	12.68%[2]
2000	82.21	25.5%
2001	73.37	-10.8%
2002	79.52	8.4%
2003	82.75	4.1%
2004	104.32	26.1%
2005	113.62	8.9%
2006	130.49	14.8%
2007	146.99	12.6%
2008	156.93	6.7%

Source: World Bank, Direction of Trade Statistics (DOTS), (edition, December 2009), ESDS International, (Mimas) University of Manchester

[1]Average annual exports growth in 1980s

[2]Average annual exports growth in 1990s

In 2000, the value of Malaysian imports was 8 times greater than it had been in the past 20 years amounting to US$82.21 billion. This was the result of domestic demand and rapid development. Between 2000 and 2008, Malaysian import trends showed a steady increase except in 2001 where economic slowdown in US and global electronic downturn has badly affected Malaysian imports demand as Malaysia is highly dependent on electric and electronic manufacturing industry, thus this affected the flow of imports (BNM, 2002). Nevertheless, as previously mentioned, over the years, Malaysian imports have been low as compared to its exports. This has been resulted in trade surplus for the trade balance.

The sources of Malaysian imports are not much different from its export destinations. Less diversification and dependency on developed countries have characterised Malaysia's imports over the last twenty years. In 1980,the major sources of Malaysian imports were the ASEAN countries, the EU, the US, and Japan, each accounting for 17 percent, 18 percent, 15 percent, and 23 percent respectively. By 2007 imports from these countries amounted to almost three quarters of Malaysia's total imports (72 percent) (see Table 4-7).

As can be seen, Japan, EU, ASEAN countries and United States have consistently been Malaysia's major sources of imports with more than a 70 percent share of total Malaysian imports until 2001. Since then, this share has decreased to below 70 percent and in 2007 it represents just 60 percent of Malaysia's imports. According to Yusoff (2005), decreasing imports from the EU is mainly due to the fall of Malaysian imports from the UK. However, ASEAN remains the most important source of Malaysia's imports accounting for 25 percent of which almost half come from Singapore.

Table 4-7: Malaysia's Major Imports Sources (1980 – 2007), value in US$ Billion

	Japan		**European Union**		**United States**		**ASEAN**		**Others**	
Year	Total imports	Share	Total imports	Share	Total imports	Share	Total imports	Share	Total imports	Share
1980	2.47	23%	1.90	18%	1.63	15%	1.81	17%	3.03	28%
1990	7.06	24%	4.69	16%	4.94	17%	5.56	19%	6.92	24%
2000	17.33	21%	9.07	11%	13.67	17%	19.74	24%	22.40	27%
2001	14.21	19%	9.64	13%	11.84	16%	16.72	23%	20.96	29%
2002	14.17	18%	9.24	12%	13.10	16%	18.27	23%	24.74	31%
2003	14.28	17%	9.98	12%	12.85	16%	20.18	24%	25.46	31%
2004	16.77	16%	12.65	12%	15.26	15%	25.21	24%	34.41	33%
2005	16.63	15%	13.36	12%	14.79	13%	28.25	25%	40.58	36%
2006	17.34	13%	14.95	11%	16.42	13%	32.03	25%	49.74	38%
2007	19.08	13%	17.44	12%	15.93	11%	35.95	24%	58.59	40%
2008	19.59	12%	18.53	12%	16.97	11%	43.7	24%	63.73	40%

Source: calculation from World Bank, Direction of Trade Statistics (DOTS), (edition, December 2009), ESDS International, (Mimas) University of Manchester

Malaysia implemented an export-oriented development strategy with stress on the exporting of manufactured products in the early 1980s. In 1980, Malaysia imported almost an equal proportion of food, beverages, tobacco and fats. These totalled 21 percent. Inedible crude materials, mineral fuels, and lubricants amounted to 20 percent; intermediate manufactured goods accounted for 25 percent; and machinery and transport equipment added up to 28 percent (MITI, 2008).

In the 1980s, Mahathir Mohammad initiated a successful policy called "Look East Policy" in order to stimulate and diversify the Malaysian economy. This policy was specifically designed to follow the Japanese strategy in developing that country after its economic downturn following World War II. One of Mahathir's major strategies was enhancing Malaysian trading relations with the Japanese economy and importing its technology. Consequently, this policy significantly changed Malaysian economic relationships and dependency from the western to the eastern economies, particularly Japan. Accordingly, Japan has been one of the major sources of imports for Malaysia since 1980. Most of the imported products from Japan have been in the form of intermediate manufactured goods and heavy industry products such as machinery. These products accounted more than 90 percent of Malaysia total imports over the period 1980 – 2006 (Yusoff, 2005).

In addition, manufactured products, especially electric and electronic are Malaysia's major products that have been traded as well as petroleum and gas. Although Malaysia is an oil exporter, for its consumption is far less than its production, crude oil, petroleum and gas are the main products that Malaysia imports from abroad to be refined in Malaysia (Parrehas, 1998). This happens because the crude oil quality produced in Malaysia is far better than that in other countries, especially those in the Middle East, and Malaysia is most likely to export its crude oil.

4.4 MALAYSIAN TRADE POLICY AND ECONOMIC INTEGRATION

According to the WTO and World Bank data 2008, in terms of its attitude to tariff, Malaysia is acknowledged as one of the most open economies in the East Asian and Pacific (EAP) region and of the upper–middle–income countries. Since the 1997 financial crisis, Malaysia has aggressively improved its trade policy by cutting and restructuring its tariffs systematically (WTI, 2008). Up to now, Malaysia has bound almost 83.7 per cent of its tariff lines as part of its WTO commitments (WTO, 2009b). Moreover, an average MFN tariff was 7.4% in 2009 and about 60% of tariff lines were duty free (see Appendix 4).

Following the WTO policy review in 2006, "improving market access, export enhancement, expanding trade, diversifying trade resources, and strengthening trade relations", these have been a focus for Malaysia's trade policies since the economic downturn in 1997. On top of that, Malaysia is also diversifying its sources of trade by expanding economic cooperation within its major trading partners particularly ASEAN countries and expanding bilateral trade and investment links within the Asia-Pacific region as well as with other developing countries (WTO, 2006). By doing this, Malaysia has struggled to increase its exports of primary commodities, manufactured products and increasing services in support of its trade activities. On the other hand, Malaysia stresses the need for exports of higher value-added manufactures in order to diversify trade from its traditional markets particularly those in the developing countries which include a huge number of Muslim countries.

Besides its commitment of trade diversification, "Malaysia has continued efforts to liberalise its relatively open trade and investment regime" (WTO, 2006, 2009c). In fact in April 2009, Malaysia had already fully liberalised 27 service sectors to foreign investors. Moreover, "the long standing 30%

'*Bumiputra*'[19] equity requirement for newly listed companies was removed, making investment conditions less restrictive" (MIER, 2009). This strategy is seen as Malaysia's commitment to liberalising its economy in order to attract more foreign investors.

Within the WTO framework, Malaysia is highly committed to the implementation of the Uruguay Round by lowering tariffs and a positive involvement in the Doha Development Round. In addition, Malaysia has been actively promoting and seeking bilateral free trade agreements (FTA) with its important trading and investment partners (WTO, 2006).

The Ministry of International Trade and Industry (MITI) is the central agency in-charged for coordinating the planning and implementation of Malaysia's international trade and industrial policies. Meanwhile, the Malaysian Industrial Development Agency (MIDA) supports the ministry particularly in coordinating and promoting industrial development in Malaysia including promoting FDI. In addition, Royal Customs Malaysia (under the Ministry of Finance) and the Ministry of Agriculture are the main bodies involved in import procedures. In relation with the trade promotion, Malaysia External Trade Development Corporation (MATRADE) is responsible for this role.

4.4.1 **Trade Liberalisation and WTO Participation**

To ensure Malaysian competitiveness in the global market, the country is committed to the trade liberalisation process and negotiations through the rules-based multilateral trading system under the WTO. Malaysia views the WTO as a successful organisation and considers that the multilateral process has been doing well and remains relevant. Malaysia has been a member of the WTO since its formation in January 1995, is highly committed to the

[19] Prior to this, there was a requirement that all initial public offerings (IPOs) set aside a 30% share for 'Bumiputra' investors. 'Bumiputra' means "son of earth" or "son of soil", it is an indigenous element in th Malaysian constitution as if one of the parents is a Malay and practising Islam or Bumiputera (aborigines/indigenous for Sabah & Sarawak). Therefore his/her children are Bumiputeras.

multilateral trading system. Prior to the formation of WTO, Malaysia had also been a member of General Agreement on Tariffs and Trade (GATT) since 1957.

The WTO agreements continue to play an essential role in the formulation of Malaysia's trade and trade-related policies. According to the trade policy review by the WTO (2006), in order to ensure Malaysia's trading market remains accessible, transparent and predictable, Malaysia has put a greater effort in to all WTO negotiations. Malaysia also believes that the WTO negotiations may open up a huge opportunity for its goods and services globally. Moreover, "an active participation in international trade has helped transform Malaysia from an agro-based to a manufacturing-based economy exporting to global markets" (WTO, 2006).

On the other hand, it is believed that the formation of WTO was to speed up trade liberalisation process and provide a secure world trading system. Therefore, Malaysia is committed to its participation in the WTO in order to advance its liberalisation pace.

4.4.2 **Malaysia and Free Trade Agreements**

Apart from the multilateral trade arrangement through WTO participation, Malaysia has also been actively seeking regional and bilateral free-trade agreements with its counterparts. To date, there are two bilateral free trade agreements (FTAs) and five regional FTAs that have been signed and implemented (MITI, 2009a). The bilateral FTAs are with Japan, namely the Malaysia-Japan Economic Partnership (MJEPA), and with Pakistan, namely the Malaysia-Pakistan Closer Economic Partnership Agreement (MPCEPA).

In terms of regional FTAs, as an ASEAN member, Malaysia is a part of the ASEAN FTA under the Common Effective Preferential Tariff Scheme (CEPT), which was introduced in 1993, ASEAN Investment Agreement (AIA) and ASEAN Free Trade Agreement in Services (AFAS). Within the ASEAN membership framework, there are another four regional free-trade agreements. These

include the ASEAN-Japan Close Economic Partnership (AJCEP), the ASEAN Korea Free Trade Agreement (AKFTA), the ASEAN-China FTA and the ASEAN-Australia and New Zealand Agreement (AANZFTA).

Besides the current free trade agreements, Malaysia is also seeking new FTA's and negotiating with other potential market. There are five bilateral, one regional free trade agreements (FTA) and two preferential trade agreements (PTA)[20] that are under negotiation including one with Malaysia's major trading partner, the United States (US). Ongoing FTA negotiations are as follows:

Bilateral FTA

1. Malaysia-India
2. Malaysia-Chile
3. Malaysia-Australia
4. Malaysia-New Zealand
5. Malaysia-Korea

Regional FTA

1. ASEAN-EU

Bilateral PTA

2. The Trade Preferential System-Organisation of the Islamic Conference(TPS-OIC)
3. The Developing Eight (D-8) Preferential Tariff Agreement (PTA)

In recent years, the GCC has also been seen as a potential Malaysian market and is contemplating the negotiation of a free trade agreement with the economic bloc (Bernama, 2007, Husain, 2009). This shows that Malaysia is keen

[20] Different between free trade agreement (FTA) and preferential trade agreement (PTA) is hardly distinguished as both focus on reducing tariffs with respect to each other (participating countries), nevertheless, PTA has less access to the market with the main aim of becoming an FTA

to liberalise its economy to become more competitive in the global market. To a certain extent, this might help Malaysia's efforts to liberalise its market and integrate well in the global economy.

4.4.3 **Malaysia and ASEAN**

ASEAN, the Association of Southeast Asian Nations is a regional economic organisation based on geo-political affiliation, in which Malaysia is a part. It was established on the 8th August 1967 in Bangkok, Thailand, by the five founder members of Malaysia, Indonesia, the Philippines, Singapore, and the host country, Thailand. Initially, the organisation aimed to foster regional security and solution to intra-regional disputes (ASEAN, 2009b).

Although an early establishment of ASEAN was desirable for political and security reasons, economic goals became an important item on the agenda for the organisation particularly in the late 1970s. In 1977, ASEAN countries agreed to reduce tariffs among them by signing a preferential trading agreement (PTA). This movement was aimed at encouraging closer regional economic cooperation (Tan, 1996 as cited in Cheong and Tsen, 2008). Unfortunately, according to Cheong and Tsen (2008), the implementation of the ASEAN PTA was unsuccessful due to the paucity of commodities covered in the scheme. Importantly there was less participation and support from the member countries in the implementation process.

The failure of the ASEAN PTA, however, was not an end of the ASEAN countries' economic integration. In 1992, ASEAN members agreed to establish an ASEAN free trade area (AFTA) in order to integrate their economies. It was agreed that, AFTA would be gradually implemented within 15 years. Since 1993, all ASEAN countries have been lowering intra-regional tariffs through the Common Effective Preferential Tariff (CEPT) Scheme. Although the initial plan was due in 2008, the ASEAN Economic Ministers meeting on the 22-23rd September 1994 in Chiangmai, Thailand, decided to reschedule the plan to 10

years instead of 15 years (Tan, 1996: 160). Therefore, by 2003, six ASEAN major countries (comprising Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand) had lowered 99 percent of their products in the CEPT scheme between 0 and 5 percent tariff range (ASEAN, 2009a). The remaining newer ASEAN countries were expected to implement the CEPT gradually.

As an active member of ASEAN, Malaysia has been giving its full commitment to implementing the CEPT scheme under AFTA. In fact Malaysia is moving towards achieving a single market by 2020 (WTO, 2006). Its relationships with the ASEAN community clearly prove that Malaysia is preparing its economy to be fully liberalised and integrated with the global economy. Most of the Malaysian product tariffs have been reduced and this is expected to boost trade.

Table 4-8 reveals the trends of trade relations between Malaysia and its neighbouring countries (ASEAN members). It shows that Malaysia is experiencing a trade deficit with Indonesia and the Philippines while experiencing a trade surplus with Singapore, Thailand, and Brunei Darussalam. Trade between Malaysia and its neighbouring countries has been notably increasing since 1980. The value of trade with Singapore, for example, is now 10 times than it was 20 years ago. It amounted to US $25 billion value of exports and US$ 16 billion value of imports in 2007 with US$ 8 billion trade surplus.

It is worth noting here that the trade deficit with Indonesia increased between 1980 and 2007. The deficit value in 2007 was about US$ 1 billion. In the meantime, trade between Malaysia and the Philippines fluctuated between 1980 and 1990 but recorded a trade surplus. After 2000 there has been a trade deficit.

Table 4-8: Malaysia's Trade with ASEAN Major Countries (Brunei, Indonesia, Philippines, Singapore and Thailand). Value in US$ (Million)

	Brunei			**Indonesia**			**Philippines**			**Singapore**			**Thailand**		
Year	X	M	TB	X	M	TB	X	M	TB	X	M	TB	X	M	TB
1980	23.2	1.2	22.0	34.3	80.7	-46.3	197.7	107.2	90.5	2,479.8	1,264.9	1,214.9	188.4	320.3	-131.9
1990	84.9	1.2	83.7	342.2	316.1	26.2	393.7	156.1	237.6	6,752.8	4,308.1	2,444.8	1,032.8	702.4	330.4
2000	254.0	3.7	250.3	1,707.5	2,268.8	-561.3	1,726.7	1,990.6	-263.9	18,050.1	11,763.3	6,286.8	3,550.3	3,175.6	374.7
2001	273.0	5.1	267.9	1,563.1	2,241.4	-678.3	1,287.5	1,839.3	-551.8	14,912.9	9,292.7	5,620.2	3,360.0	2,926.6	433.4
2002	256.8	3.7	253.2	1,801.2	2,550.7	-749.5	1,334.8	2,595.7	-1,260.9	15,958.5	9,541.3	6,417.2	3,972.2	3,158.4	813.8
2003	317.7	31.7	286.0	2,129.2	2,939.0	-809.9	1,436.7	3,114.6	-1,677.9	16,522.6	9,811.3	6,711.3	4,615.3	3,828.8	786.5
2004	316.5	14.2	302.3	3,072.9	4,193.7	-1,120.8	1,937.5	2,818.5	-881.1	18,993.8	11,704.5	7,289.3	6,040.5	5,788.5	252.0
2005	353.3	13.0	340.3	3,322.3	4,375.3	-1,052.9	1,974.2	3,219.5	-1,245.3	22,009.6	13,424.5	8,585.1	7,584.6	6,044.9	1,539.8
2006	345.6	75.5	270.0	4,074.0	4,951.8	-877.8	2,173.4	2,900.9	-727.6	24,743.9	15,329.3	9,414.6	8,501.8	7,167.3	1,334.5
2007	402.4	95.8	306.7	5,171.3	6,233.3	-1,062.0	2,548.4	2,849.9	-301.5	25,771.5	16,869.8	8,901.7	8,729.7	7,862.7	867.0
2008	449.3	101.9	347.4	6,243.1	7,269.4	-1,026.4	2,931.7	2,110.2	821.4	29,416.2	17,292.6	12,123.6	9,571.3	8,802.4	768.8

Source: World Bank, Direction of Trade Statistic (DOTS), (Edition: December 2009) Economic and Social Database Services (ESDS) International, University of Manchester

Interestingly, in 2007, considering Malaysia's total trade, Singapore was Malaysia's largest trading partner and second largest in 2008. The most important thing to note is that Singapore, Indonesia and Thailand have been in Malaysia's top ten trading partners since 2002. In 2007 and 2008, the percentage share of Malaysia's trade with those countries was 21.86 percent and 22.05 percent respectively. This trend shows that Malaysia has had notably strong trade relations with its neighbouring countries. Thus, it is expected that the formation of AFTA will definitely increase Malaysia's trade with ASEAN countries as well as with the global market.

4.5 MALAYSIA'S RELATION WITH THE OIC MEMBER COUNTRIES

Malaysia's active involvement and participation with the Organisation of Islamic Conference (OIC) since 1969 has been remarkable in promoting the country's image in the Muslim world. At the same time, it has been striving to achieve OIC objectives and to improve political and economic relations among the member countries. By strengthening its relations with the Muslim world, Malaysia has been successfully building economic cooperation with the other Muslim countries. This economic agenda has always been one of the important objectives of the OIC since its establishment in September 1969.

Apart from Saudi Arabia, Turkey and Indonesia, Malaysia is recognised among Muslim countries as being a major Muslim world economy (Shikoh and Zain, 2008). Hence, it is recognised as a model for other developing Muslim countries. Moreover, between 2003 and 2008, Malaysia was appointed as chairman of the OIC. One of the major declarations made during the 2003 Islamic Summit in Putrajaya was the aim to strengthen trade relations among Muslim countries.

To fulfil this aspiration, Malaysia has been actively enhancing its trade relations with these countries and encouraging other Muslim countries to increase their intra-trade activities. Shikoh and Zain (2008) found that,

'Malaysia has shown significantly larger growth in trade with OIC member countries than with the rest of the world'. They state that:

> *"Malaysia is leading this trend. During 2003-07, Malaysian imports from OIC member countries increased 19.23% compared to 11.96% with rest of the world. Similarly, its exports to OIC member countries increased 16.21% compared to 10.55% with rest of the world" (Shikoh and Zain, 2008)*

Apart from trade relations, Malaysia has also been actively attracting investment from the OIC members as well as investing in other Muslim countries. Recent data have shown that for the first 8 months in 2009, investment from OIC member countries was worth US$46.8 million out of a total of US$ 3.4 billion. It mostly came from projects in Iran, Indonesia, Turkey, Egypt and some of the GCC member countries. It is also said that Malaysian investment in OIC member countries amounted to US$ 4.14 billion (Damodaran, 2009).

In 2002, the OIC made an important move in promoting intra-OIC trade by establishing a trade preferential system among the member states in the OIC (TPS-OIC) framework. Malaysia agreed to move further in enhancing trade relations with Muslim countries by signing the Framework Agreement on 30 June 2004 and ratifying it on 23 August 2004. Up to November 2009, 36 countries had signed and ratified the frameworks and all of the GCC countries have given their consent to the agreements (COMCEC Office, 2009).

In conjunction with the TPS-OIC framework, during the meeting in Istanbul from 22-25 November 2005, the 21st Ministerial Session of the Standing Committee for Economic and Commercial Cooperation of The Organization of the Islamic Conference (COMCEC) agreed to implement a protocol on the Preferential Tariff Scheme (PRETAS) for the TPS-OIC. To date, 22 countries have signed PRETAS, and 11 countries have ratified it, including Malaysia and all GCC countries except for Kuwait.

The establishment of TPS represents a very important mechanism for enhancing intra-OIC trade that may boost trade relations and perhaps resurrect the idea of an Islamic Free Trade Area (IFTA). In order to examine Malaysia's trade relations with Muslim countries, an outline these relations is as follows:

4.5.1 **Malaysia's Trade with Muslim Countries**

It can be seen that there has been an increasing trend in terms of value and percentage of trade between Malaysia and other Muslim countries. Table 4-9 shows that in 1980 the total value of trade between Malaysia and the OIC countries was about US$ 1.5 billion, with a US$ 468.83 million export value and a US$ 1037.01 import value. Total trade was double this value ten years later. However, the proportion of Malaysia's total intra-OIC trade decreased from 6.33 percent in 1980 to 4.05 percent in 1990. This was due to decreasing import values from Muslim countries. The percentage of Malaysia's intra-OIC trade increased to 4.98 percent in 2000. This represented 5 – 8 percent share of its total trade between 2000 and 2007.

In 2008 the percentage share of exports to the OIC member countries' to Malaysia's total exports had increased substantially compared to the 1980s and 1990s. It accounted for a 9.98 percent share of Malaysian exports with the value of US$ 15.67 billion. Despite the increasing value of imports from the OIC countries, the share of Malaysia's intra-OIC imports with regards to its total trade (percentage of imports) shows a decreasing trend as compared to 20 years ago. The value of imports in 1980 and 1990 were US$ 1037.01 million and 762.38 million. This constituted 9.57 percent and 2.61 percent of Malaysia's total imports respectively. It is believed that the declining value of these imports from OIC countries was due to falling oil prices in the 1980s. In 2008, the value of imports was 12 times greater than in the 1980s. This amounted to a 9.99 percent share of Malaysia's total imports.

Table 4-9: Malaysia's Intra-OIC Exports and Imports (value in US$ Million)

Year	Total trade value	Percentage*	Exports value	Percentage+	Imports value	Percentagex
1980	1505.84	6.33	468.83	3.62	1037.01	9.57
1990	2373.34	4.05	1610.96	5.48	762.38	2.61
2000	8984.07	4.98	4874.06	4.97	4110.01	5.00
2001	9211.22	5.70	5001.19	5.67	4210.03	5.74
2002	9795.16	5.66	5690.48	6.09	4104.68	5.16
2003	12179.54	6.49	7222.23	6.88	4957.31	5.99
2004	16189.38	7.01	9200.98	7.27	6988.4	6.7
2005	18506.75	7.27	10088.34	7.16	8418.41	7.41
2006	22862.81	7.85	11850.12	7.38	11012.69	8.44
2007	27756.94	8.59	15380.10	8.73	12376.84	8.42
2008	35,584.06	9.98	19905.27	9.98	15678.79	9.99

Source: Basic Social and Economic Indicators (BASEIND), (2009) The Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC)

*percentage of Malaysia's total trade

+percentage of Malaysia's total exports

x percentage of Malaysia's total imports

From these trends, it can be concluded that in recent years, Malaysia's trade relations with Muslim countries have been of considerable significance. However, further actions need to be taken to achieve the OIC target of 20 percent of intra-OIC trade as declared in the ten-year OIC programme during the Makah Ordinary Summit in 2005.

Although there has been considerably growth in Malaysia's trading with Muslim countries, the major trading partners for Malaysia have remained the same. As previously discussed, the United States, Singapore, and Japan are still the top three trading partners for Malaysia. From Table 4-3 in section 4.3.1, it is clear that Indonesia is the only Muslim country that Malaysia traded with more in 2007. Moreover, a geographical and economic background factors play an important role in this situation. It would be not surprising if Middle Eastern and Muslim countries were not in Malaysia's top ten trade destinations. It could be said that relationships between these countries are focused on political and international affairs. However, two GCC states, the United Arab Emirates (UAE) and Saudi Arabia contributed hugely to Malaysia's trade in 2006 (see Appendix 1).

In order to enhance its trade with Muslim countries in general and particularly with Middle Eastern economies, the GCC countries have been a focus for Malaysian trade strategy in order to penetrate the Middle-Eastern market. Therefore, Malaysia is eager to have a FTA with the GCC countries (Husain, 2009, KUNA, 2009). Thus, this study is directed at analysing the feasibility of this strategy in terms of Malaysian competitiveness, traders' perceptions as well as their willingness to support this strategy and relationships with the Arab Gulf states. Further discussion on Malaysia's trade with the GCC countries is discussed in Chapter 5.

4.6 CONCLUSION

This chapter has analysed Malaysia's economic background with particular attention to its economic and trade liberalisation and globalisation strategies. From this chapter, it can be concluded that, the Malaysian economy is working hard to integrate its economy and trading policies with the rest of the world. Malaysia's participation in the ASEAN Free Trade Area is believed to be a catalyst for this strategy to liberalise its trading policy.

Its trade diversification strategy which also includes diversification of its market sources needs a commitment to acquire new trading partners. Apart from the Far East markets, Middle Eastern countries are now also considered as new market destinations for Malaysian products (National Economic Advisory Council, 2010). This is due to its strong and healthy relations with Muslim countries in West Asia.

This chapter has also explored Malaysia's activeness in promoting and expanding intra-OIC trade, as well as co-operating with other Muslim economies which is another major objective of the OIC. It has been found that Malaysia has had significant trade relations with OIC member countries and is very keen to enhance its trade relations with these countries. Its participation in the establishment of a trade preferential system among OIC countries has shown Malaysia's commitment to strengthen relations with other Muslim economies.

From this chapter, it can be concluded that among OIC member countries, the Middle Eastern economies are seen as potential new markets for Malaysia to explore. In the light of its proposal to create a bilateral Free Trade Agreement with the GCC and GCC countries readiness to promote trade liberalisation, an analysis of Malaysia's trade with GCC countries is presented in Chapter 6. Analysis on Malaysian traders' views and officials' opinion on this market are also assessed in Chapter 7 and Chapter 8.

Chapter 5 METHODS AND METHODOLOGY

5.1 INTRODUCTION

This research is based on a combination of quantitative and qualitative research methods in order to achieve the objectives of the study. In examining Malaysia's economic and trade relations with the GCC countries and mutual products for trade between Malaysia and the GCC, an analyses of revealed comparative advantage (RCA) and trade intensity index have been undertaken (see Chapter 6). The research also attempts to establish Malaysian traders' views regarding the GCC market and the challenges that have been faced to penetrate the GCC market. Thus, both qualitative and quantitative techniques are used to determine factors that have been driving Malaysia-GCC trade relations as well as motivating traders' and policy makers' stands on Malaysia - GCC economic relations.

The qualitative research, which primarily consisted of conducting semi-structured interviews with regional experts, was used to collect information and data. A considerable amount of fieldwork in Malaysia between October 2008 and December 2009, seminar presentation in the Malaysia West Asia Studies Institute (IKRAB)[21] at the National University of Malaysia, and a four-week attachment to the Gulf Research Centre (GRC)[22] based in Dubai were completed to ensure the credibility of the research and to provide first-hand experience of the subject under study.

Quantitative and empirical work was carried out to assess the trade relations between Malaysia and the GCC countries individually and as a group.

[21] Malaysia West Asia Studies Institute (IKRAB) is a research institute under the administration of the National University of Malaysia (UKM) located in Selangor, Malaysia. The IKRAB was founded in 2008 and focuses on research on West Asia studies.

[22] The Gulf Research Centre (GRC) is an independent research institute located in Dubai, UAE. It was founded in July 2000 and is an entirely independent organisation that publishes a wide range of research papers and conferences. The GRC (www.grc.ae) also incorporates Gulf in the Media (www.gulfinthemedia.com).

This included trade intensity and RCA indexes. An important method of assessing Malaysia's trade relations with the GCC countries was to gauge traders' sentiments on Malaysia's relation with the Arab Gulf economies. The fieldwork in Malaysia, which included carrying out an extensive business survey on the subject, was very helpful in gaining traders' perspectives towards this emerging market.

Thus, this chapter discusses the above-mentioned methods which were used to address the research's specific objectives and questions as set out in Chapter 1. The chapter is divided into the following sections: the first, section 5.2, discusses the research methodology. In section 5.3 and 5.4, the formulation of the research design, its process, and the strategy are laid out. The quantitative and qualitative research methods are discussed in the methods section (section 5.4). In the same section, a summary of data analysis of various types of research methods is discussed.

5.2 RESEARCH METHODOLOGY

Research literally refers to a scientific process to investigate or discover information, data, or facts, or reach an understanding (Cambridge online Dictionary, 2009). Scientifically, the term research means a process of systematic investigation to study phenomena or issues (Clough and Nutbrown, 2007). According to Ryan *et. al.* (2002), research may be labelled under various headings: it could be academic research, scientific research, or applied research. Most importantly, Ryan *et. al.* (2002) suggest that research is about discovery. The process of discovery involves collection, exploration, analysis, reporting, comparing and interpreting data activities in order to identify trends, and similarities, or differences (Clough and Nutbrown, 2007). Specifically, the findings from the research activities are to answer the research questions (Yates, 2004). Research questions play an important role in determining the direction for the research, and thus they must form the focus (Kumar, 1999).

In conducting research, there are two different approaches that can be chosen by a researcher. It is important to decide the appropriate research approach in order to achieve the desired result and to ensure that the process taken is appropriate to answer the research questions. It is also important to determine the strategy in the early stage of the research as it will influence the nature of the research conducted (Collis and Hussey, 1997). As indicated earlier the approach is classified into two major types: the qualitative and the quantitative.

5.2.1 **Qualitative Research**

Qualitative research, generally involves examining meanings, feelings and reflecting on perceptions (Kumar, 1999). It is more subjective in nature and is employed particularly to understand social and human behaviours (Collis and Hussey, 1997: 12). It predominantly emphasises the generation of theories and thus constitutes an inductive approach. This approach typically gives an emphasis on words rather than numerical data, in contrast with qualitative research, in the collection and analysis of data (Bryman and Bell, 2003). In terms of data analysis, it is more narrative and descriptive in nature (Kumar, 1999).

5.2.2 **Quantitative Research**

This approach requires a researcher to be involved in collecting and analysing numerical data and applying statistical tests. This type of approach is objective in nature and concentrates on measuring phenomena or testing theories (Collis and Hussey, 1997: 12). It is normally used for conducting deductive reasoning research (Bryman and Bell, 2003: 25). Several techniques including frequency distribution, cross-tabulation, factor analysis, and other statistical procedures could be used for the data analysis. (Kumar, 1999).

In order to understand the nature of bilateral trade between Malaysia and the GCC countries, both RCA and intensity indexes have been employed.

They have certainly aided the analysis of bilateral trade relations between Malaysia and the GCC economies. In order to gain a deeper understanding on both Malaysia's and the GCC countries' economic conditions, a macro-analysis of both has been included in Chapter 2 and Chapter 3. In addition to the above analyses, which have contributed in-depth understanding on the mutual trade between the Malaysian and Arab Gulf economies, a combination of business surveys and policy analyses have been undertaken to integrate a methodological approach for this study.

Consequently, this thesis employs a combination of quantitative and qualitative research methods in order to provide a comprehensive analysis of the Malaysian-GCC trade relations in different perspectives which includes the business practitioners and policy makers.

5.3 RESEARCH DESIGN

The research process consisted of six key stages, as suggested by Collis and Hussey (1997). The outline of the research design is illustrated in Figure 5-1. Theses stages are outlined in more detail below;

Stage 1 involved identifying the research topic. Initially, the idea for this PhD resulted from several factors, not the least of which was the lack of detailed research on the subject of Malaysian–GCC bilateral trade relations. Interest in this subject arose from the author's interest in the subject of Muslim countries' economic cooperation. In fact, a research on Muslim countries' trade relations was carried out while the author was based at the University of Malaya in 2006. As part of a postgraduate study in economics, the researcher focused upon the trade liberalisation effect on Muslim countries economies in particular on those of the Organisation of Islamic Conference. He read extensively on the topic of trade and Muslim countries' economic cooperation. Findings from previous research have led the author to understand the trade structure of Muslim countries and the causes that have lead to low economic

cooperation. Prior to this, Malaysia was the chairmanship of the OIC from 2005 to 2008, and had been promoting economic cooperation among the Muslim countries. In the meantime, Malaysia had pursued a trade expansion strategy among Muslim countries in the Middle East and in particular among the Gulf economies. Since Malaysia is highly interested in having a Free Trade Agreement (FTA) with the GCC economic bloc, it is important to study this development and Malaysia's bilateral trade relationships with these economies.

Stage 2 involved defining the research question/problem. A thorough analysis of both the theoretical and applied literature on international trade and in particular, on bilateral trade relations was undertaken. It also concerned literature on revealed comparative advantage. In addition, an investigation of the existing literature that specifically focused on the GCC and Malaysia's economic background was carried out. This literature review guided the author in constructing the main research questions.

Stage 3 involved determining the research planning. As has been discussed, a range of approaches was used to address the research questions. In doing so, government bodies (Malaysia), academics and research institutions in both Malaysia and the GCC countries, were contacted in order to facilitate the necessary fieldwork. The fieldwork that was carried out involved interviews and a business survey with Malaysian traders[23] in order to understand their experiences of doing business with the Gulf countries and to ascertain the views of the experts on bilateral trade issues. A research schedule for undertaking the planned fieldwork was also determined.

Stage 4 involved collecting information and research data. At this stage, a process of collecting data and important information was initiated, and selected research methods were applied. Data on macroeconomics for Malaysia and the GCC countries were collected from statistical organisations,

[23] In the first place, the business survey was also planned to have GCC business views on the issues of market entrance in Malaysia. However, sadly, due to time and budget constraints as well as difficulty in reaching GCC business personnel, the researcher decided to focus on Malaysian traders' views on GCC market.

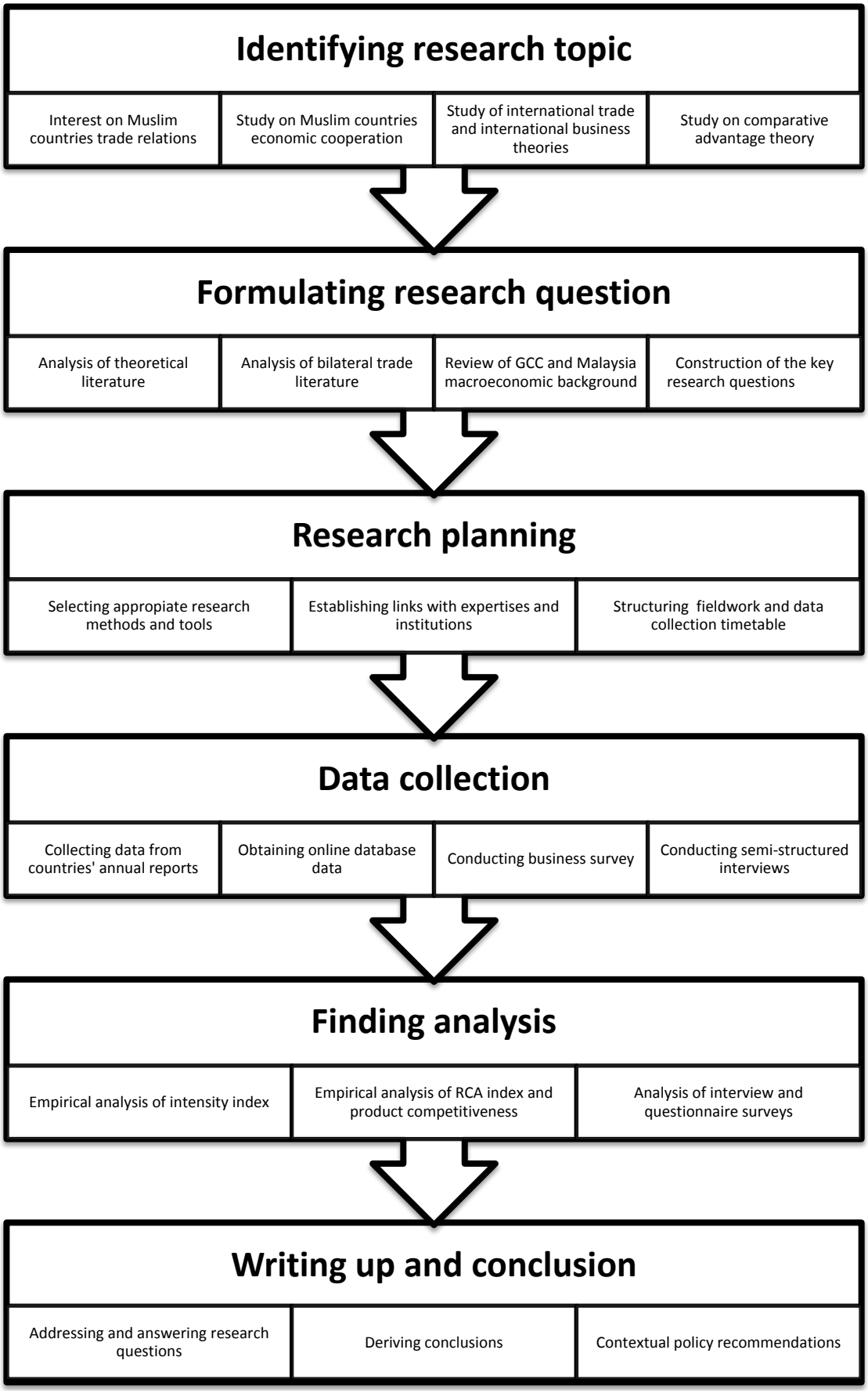
government reports and online databases. Semi-structured interviews with people with expertise on the issue (particularly from the Malaysian government and independent researchers) were carried out and a business survey on Malaysian traders conducted.

Stage 5 involved data analysis and interpretation. Data and information that were collected in stage 4 were analysed and evaluated. The results from the semi-structured interviews, and the questionnaire survey, and the empirical findings of revealed comparative advantage and the trade intensity indexes all provided evidence in answering the research questions.

Stage 6, contains the conclusions which, hopefully, will provide convincing data for Malaysian policy makers in their efforts to enhance bilateral trade relations with the GCC countries. Furthermore, it may be used in support of the Malaysia-GCC FTA proposal that was initiated by the Malaysian government. In addition, these conclusions seek to contribute to the literature on trade theory in general and in particular to trade cooperation among Muslim countries as well as Malaysia's strategy to globalise its economy and expand trade relations with the GCC countries.

In sum, Figure 5-1 depicts the entire research process pursued by this study.

Figure 5-1: Research process



5.4 RESEARCH METHODS

Methods can be analogised as ingredients to conduct research, whilst methodology is a research recipe (Clough and Nutbrown, 2007). It involves the way that the researcher conducts his/her research by using specific techniques or sets of procedure in collecting and analysing data to answer the research questions that were initially established (Robson, 2002). It is simply said that the research method is a set of instruments to be applied for data collation and analysis. According to Knox (2004), the selection of appropriate methods by researchers and students is crucial for showing their ability to realise and understand their subject.

There is no one absolute method that can answer all research questions (Bell, 1999). It is suggested that for each research question, there must be an appropriate method of investigation (Troitzsch, 2006). Therefore, this study blends several methods in order to comprehend and give an insight into the issues involved. The appropriate methods for exploring the Malaysia–GCC relations are set out in Table 5-1. As can be seen in the Table 5-1, this study combines qualitative and quantitative research methods, which include interview surveys, a questionnaire and index analyses. The combination of methods is called mixed method, multiple method or the triangulation methods. Details of each method are discussed below.

5.4.1 **Quantitative Research Method;**

In this study, the quantitative research methods involved questionnaire surveys in order to understand Malaysian traders' views on the GCC market, and the determinant factors that influenced them to expand business in the region. This method also entails collating statistical data in order to analyse the Malaysian and GCC economies from the macroeconomic point of view. Statistical data is also used to analyse comparative advantages between Malaysia and the GCC in terms of exports.

Table 5-1: Method of analysis

Objectives	Research Question	Method of Assessment
To analyse the structural pattern of trade between Malaysia and the GCC countries over twenty years.	What proportion of GCC exports are sent to Malaysia and what is the proportion of imports originating from Malaysia? Has there been any significant growth trade between Malaysia and the GCC?	Analyses of trade patterns and structures between Malaysia and the GCC countries
To identify the composition of trade between Malaysia and the GCC countries.	Which of the GCC member states trade most with Malaysia, as measured by their trade intensity ratios? What are the commodities most traded between Malaysia and the GCC?	Analysis of trade intensity index. Analysis of exports composition by using SITC data classification.
To measure the competitiveness of Malaysian exports to the gulf region by using statistical methods.	What has been Malaysia's competitiveness performance over the years in relations to its exports to the GCC?	Analysis of the Revealed Comparative Advantage index (export similarity index)
To identify the challenges and obstacles to penetrating this market through primary and secondary data.	How is the GCC market viewed by Malaysian exporters? What are the major constraints facing Malaysian exports to the GCC?	Quantitative and qualitative assessment including using questionnaire and interview surveys
To evaluate the potential and future prospects for this market.	Would the Malaysian exporters and officials support the Malaysia-GCC free trade agreement?	Quantitative and qualitative assessment including using questionnaire and interview surveys

5.4.1.1 Quantitative Data – Secondary Data

Secondary data for this study were collected from a number of institutions and annual reports. These included, the Ministry of International Trade and Industry Malaysia (MITI), the Malaysia External Trade Development Corporation (MATRADE), Bank Negara Malaysia (BNM) annual report, the Arab Monetary Fund (AMF) annual report, the International Trade Centre (ITC) database, the United Nations Commodity Trade Statistics (UN COMTRADE) database, the World Bank database, the International Monetary Fund (IMF) database, and the World Trade Organisation (WTO) database. Being a Durham

University student, the researcher utilised facilities provided by the university, specifically to obtain data from the World Bank and the International Monetary Fund databases. These databases are accessed from Economic and Social Data Services (ESDS) subscribed by Durham University.

5.4.1.2 Questionnaire survey; primary data collection

The questionnaire survey was used as one of the tools to collect information for this research. The survey which was entitled "Business survey on Malaysian traders' experience towards the GCC markets", was carried out to assess business issues on Malaysia's economic relations with the GCC. The survey has provided relevant evidence on the state of the current situation regarding Malaysia's trade relations with the GCC and on the potential of forming an FTA. The survey sought to find out the challenges and obstacles faced by Malaysian traders and businessmen in trying to penetrate the GCC market. It has also questioned Malaysian traders' experience doing business in the Gulf and assessed business confidence on the FTA proposal (see Appendix 4).

A questionnaire was chosen as the instrument for this research to collect all the information and data needed because of its advantages and appropriateness to answer the research questions. Nevertheless, there are several disadvantages to using a questionnaire that need to be borne in mind. Below is a list of advantages and disadvantages to using one:

5.4.1.2.1 Advantages of questionnaires

a) It is an economical way of attaining considerable research data and information at relatively low cost as it can easily be sent out to geographically dispersed respondents, thus saving time and money.
b) There can be a high degree of standardisation in the sense that all of the respondents are asked exactly the same questions with no variations in the wording or the manner in which the questions are

asked. Thus, it reduces the chances of interpersonal influence on the data.

c) It can maintain privacy and anonymity of the respondents, which encourages frankness especially to answer sensitive questions.
d) It is easier to manage than, for example, an interview survey. There is no need to arrange appointments since the questionnaire may simply be sent out unannounced to the respondents.
e) Questionnaires using the internet can be easily designed and, most importantly, provides data accuracy as the data can be filed directly, thus automatically processing the data. Using an Internet survey can help to eliminate human error which can occur when data from the questionnaire sheets are being loaded into the data file.
f) It provides a relatively straightforward approach to the study of attitudes, perception, values, belief, and motives.

5.4.1.2.2 Disadvantages of questionnaires

a) Data are affected by the characteristics of the respondents, for example, their knowledge, memory, experience and personality.
b) Respondents may not return the questionnaire thus leading to a low response rate.
c) Respondents may not answer the questionnaire seriously, and this may not be detected.
d) Misunderstandings and misinterpretations may occur and there may be no opportunity to clarify if the respondents do not understand the questions which will affect the quality of the information given.

Although there are a few disadvantages of using a questionnaire, its advantages outweigh the disadvantages. The advantages also prove that this method is more appropriate for answering some of this research's questions as mentioned in chapter one.

5.4.1.2.3 Questionnaire format

Questions in a questionnaire survey can be open-ended or close-ended questions. The former allows the respondents to provide any answer that they believe appropriate. Close-ended questions, however, refer to questions that are already coded and allow the respondent to quickly pick an answer from number of pre-determined options.

In designing the questions in this survey, the close-ended question style was utilised. In addition, a Likert-scale formatting style based on five categories (strongly disagree, disagree, neutral/neither agree nor disagree, agree, strongly agree) was also employed.

5.4.1.2.4 Validity and reliability

Validity is an essential requirement for both quantitative and qualitative research, as it determines the way that the researcher evaluates what the research is designed to measure (Kumar, 1999: 137). In quantitative research, particularly in a questionnaire the validity depends on the accuracy, honesty, and correct response from the respondents who completed the survey (Cohen et al., 2007). Cohen *et. al*. (2007) acknowledged that it is impossible for research to be 100 percent valid. However, they also suggested that to improve the validity of the data, careful sampling design, appropriate instrumentation and appropriate statistical treatment of data must be taken into consideration (Cohen et al., 2007). Thus, to ensure its validity before distributing it, abovementioned procedures were taken and the questions were assessed to make sure that their wording was sufficiently clear to the respondents. In the mean time, to ensure the correct person was chosen, the questionnaire survey was delivered to the Managing director or at least the marketing director who has responsibility to the business decision. Right email were obtained and sent to the respective respondent. Meanwhile, in conducting the face to face survey, accurate person was chosen to answer the questionnaire. To encourage

honesty from the respondents, anonymity was guaranteed in the cover letter. This helps in improving the validity of the data.

A factual question which may produce one type of answer on one occasion but a different answer on another is equally unreliable (Bell, 1999: 103). Thus, Bell's precautionary warning emphasises that reliability is something that should have an element of consistency over time. In terms of research, it could mean the data has a consistency in accuracy, predictability, equivalence, reliability, and concurrence over time, over instruments and over groups of respondents (Cohen et al., 2007). This means that if research is carried out on a similar group of respondents in a similar context, similar results will be found. There is a range of techniques for checking reliability and one of the ways that was used to ensure the reliability of the questionnaires was by pilot-testing all the questions beforehand.

In addition, the scales that were used in this questionnaire were also tested by using Cronbach's Alphas statistical test in the SPSS programme to find the reliability of the responses[24]. The results indicated that most of the measurement scales had more than 0.7[25]. Thus, according to Cronbach's Alpha scale, this coefficient of reliability means that the collected responses have a good reliability and level consistency.

5.4.1.2.5 Sampling

Once the population is identified, a researcher must then categorise a sample by using an appropriate technique/strategy. Sampling is the process of selecting a sample (small or few respondents) from a big group (population) to

[24] Crobanch's alpha is a statistical procedure to measure internal consistency between different items on the same test. It is used in examining the reliability of the scores of the responses to be related (internal consistent) (Field, 2005). See Appendix 14.

[25] According to Nunnally (1978) as cited in Sekaran (2003: 226), an alpha value of 0.7 or more is considered sufficient. He stressed that the satisfactory level of reliability depends on how a measure is being used. "In the early stages of research on predictor tests or hypothesized measures of a construct, one saves time and energy by working with instruments that have only modest reliability, for which purpose reliabilities of 0.60 or 0.50 will suffice".

become the basis for estimating or predicting a fact, situation, or outcome regarding the big group (population) (Kumar, 1999: 148).

There are two main types of sampling technique, namely, probability and non-probability. Probability sampling ensures that the samples taken represent the population as each person in the population has an equal chance of being selected in the sample. Non-probability sampling is used when there is a difficulty or inappropriateness in ensuring that each person (or unit) in the population will be included in the sample.

Probability sampling includes random sampling, systematic sampling, stratified sampling, and multi-stage cluster sampling. Non-probability sampling, however, is mainly in the form of one of the following categories: accidental sampling, convenience sampling, judgmental or purposive sampling, or snowball sampling.

The questionnaire in this survey was directed towards two sets of Malaysian traders. One group consisted of traders experienced with GCC countries and the second group of Malaysian traders who did not have experience of business in the Arab Gulf Countries. This was done mainly in order to establish an understanding of market selection, attitudes, and the perceptions of these two groups towards the GCC market.

Apart from an unofficial list of Malaysian traders from the Malaysia External Trade Development Corporation (MATRADE)[26], there is no proper and accurate trade and industrial census undertaken and published by Malaysian authorities. Thus, from the outset, it was not possible to establish the sample frame of the survey, i.e. the size of the Malaysian trader population. So figures on the total number of traders are not available.

[26] This MATRADE list of trading companies is a business contact number given by the traders to promote their business on the MATRADE website http://www.matrade.gov.my/cms/content.jsp?id=com.tms.cms.section.Section_pro Directory. It is used as a directory thus not appropriate to establish a sample frame due to inconsistency in the directory.

However, using the method of purposive sample, which is a type of non-probabilistic sample, it allows the author to specify the available population (Malaysian traders) by justifying the researcher's judgement as to research interest. This enables the author to satisfy this specific research project (Robson, 2002: 265).

A list of Malaysian traders from the MATRADE database was compiled prior to distributing the questionnaire. Only those companies with complete contact numbers and/or email addresses were selected to participate in the survey. This enabled the researcher to ensure representation of a broad range of product-based and services-based companies. Once duplication of firms or branches of the same company had been omitted, the number of companies collated from these sources amounted to more than two–thousand-five hundred (2500). Unfortunately, after the survey had started, it was found that almost half of the contact numbers from the list were no longer in use or valid[27].

5.4.1.2.6 Piloting the questionnaire

Prior to undertaking the survey, a pilot survey was conducted on the survey questions. This was conducted in advance in order to increase the reliability, validity, and practicability of the questionnaire, and was done by sending the questionnaire to friends and colleagues. It was also important to conduct the pilot survey in order to check whether the questionnaire was too long, or too difficult to answer. Responses were then examined. Several amendments and modification to the original business survey were then made as certain questions required more clarification, simplification, or removal.

A second pilot survey of 15 companies was conducted by sending them an email survey. Similar procedures to the first pilot survey were applied and reliability tests were done using the Statistical Package of Social Science (SPSS) to ensure the appropriateness of the scales used in the questionnaire. It was

[27] They are only 1325 companies from the list that has valid contact number.

apparent from the second pilot survey that some of the respondents had not answered the question on GCC attractiveness (as they did not have experience with the GCC countries) and they were not prepared to reveal their exact sales turnover (as they felt this to be confidential). Therefore, based on the responses from the pilot survey, some statements on this particular question were removed and modifications to the sales turnover answer choices were made. To assure privacy and confidentiality, the anonymity of the responses was guaranteed in the covering letter (See Appendix 4).

5.4.1.2.7 Questionnaire administration

In conducting this survey, two major distribution techniques were used: by hand and by email surveys. Following the pilot study, 106 companies from the MATRADE list were identified as having participated in the Malaysian International Trade Exhibition 2008 (INTRADE). This research is indebted to MATRADE, Malaysia for its kindness in facilitating this survey during the Malaysian International Trade Exhibition 2008 (INTRADE) in November 2008. A face-to-face survey was conducted during the two-day event. In addition to the face-to-face survey, 1,204 companies were sent an online survey. A free online website was available to facilitate this (http://www.questionpro.com/akira/GCCSurvey)[28].

From the sample, it was expected that the response rate of the Malaysian traders would be low. This was particularly anticipated on the survey was carried out *via* the internet as surveys of this nature inherently have low response rates. Furthermore, the survey was unable, unlike many commercial survey agencies, to offer incentives for participation. This survey required voluntary participation, thus making it more difficult to get a high response rate from busy business people.

[28] The author's account with this website closed once the survey had been completed in order to avoid charges exceeding 12 months period.

The survey response rate, especially from those directly emailed (online survey), as expected, was low at just 5.4 percent overall. The face-to-face interviews were considerably more successful, in terms of the response rate. Overall, the total number of responses received was 134. This consisted of 69 face-to-face surveys (65 percent response rate), and 65 returns from the online survey.

It can be said that the number of responses, which around 134 valid respondents, is not an insignificant number from which to investigate the views and opinion of Malaysian traders towards the GCC market and the potential implementation of Malaysia – GCC FTA. Therefore, care must be taken in interpreting the results of the survey due to potential presence of sampling error.

Since convenience sampling was chosen to conduct this survey, bias – where those businesses who responded to the survey may be more interested in or in favour of the GCC market – may have occurred, and this must be taken into consideration. The survey findings and analyses are specifically discussed in Chapter 6.

5.4.1.2.8 Data Analysis for the questionnaire Survey

The primary data that were obtained from the Questionnaire Survey were submitted to the analysis process. Prior to this, the data needed to be checked, edited and coded. Editing the questionnaires involved checking to completeness to make sure there was an answer for every question and to assure that all the questions were answered accurately, for example, an answer in the wrong box. These processes were taken to identify and eliminate any errors that might be made by the respondents (Cohen et al., 2007).

The data then went through a coding process that was carried out manually. Coding the questionnaires meant that the raw data were systematically transformed into a code so that it could be easily analysed by the computer. It meant that the data is converted into numerical form for statistical

analysis (Denscombe, 2007: 257). For example, for the Likert scale question, the answers were transformed into; 1 for strongly disagree, 2 for disagree, 3 for neutral, 4 for agree and 5 for strongly agree.

Once the coding process had been completed, the raw data were then keyed into computer software. SPSS was used in order to facilitate analysis[29]. Steps on the entering of the data, such as missing data detection, cleaning the data by checking duplication, and checking for discrepancies were followed (Robson, 2002: 391). This process is also known as data screening and is important to ensure that the data has been flawlessly entered. When necessary, some of the variables were transformed. When all the processes had been completed, the following statistical methods in SPSS were employed:

a) Descriptive analysis

Descriptive analysis is a common analysis for statistical tools. It is used to explore the data collected. It is also used to summarise, organise, and describe the data that have been gathered (Coakes, 2005: 56). It is a particularly useful tool to observe general findings from the survey, for example, the number of Small Medium Enterprise (SME) and non-SME companies, the most important export destinations, average firms' sales returns, *etc*. However, descriptive analysis was used in this study to analyse the respondents' backgrounds.

It was also aimed at organising the respondents' answers into statistical data such as frequencies and percentages. A frequency distribution was used to find the frequency of occurrence of each variable (Coakes, 2005: 56). In order to optimise the standard of data presentation, data can be transferred into charts and tables. This can be easily done by SPSS. The mean of the particular variables was also calculated to establish general tendencies.

[29] The Statistical Package for Social Sciences (SPSS) is widely used for quantitative data analysis, generally used for questionnaire analysis. It is very useful for presenting the data as it helps to establish tables, charts etc. Importantly, SPSS can be used for statistical analysis. The researcher has used SPSS version 12 for this study.

b) Cross- tabulation analysis

Robson (2002: 417) defined cross-tabulation analysis as a simple and commonly used method for determining a relationship between two variables (dependent and independent variables). This analysis allows the researcher to explore the correlation between a set of variables mentioned in the questionnaire. The findings from this analysis are presented in a table called a contingency table. It contains percentages, values, *etc* which help to highlight any relationships between the two variables.

In this particular study, cross- tabulation analysis was conducted between various variables while traders' experience, firm size, and business activity were used as control variables. It is expected that these factors might have a significant impact on the views of the Malaysian traders with regard to their business relations with the GCC countries. Thus, this analysis seeks to determine statistical correlations between the aforementioned variables, and other variables which are related to: (1) traders' motivation to trade with the GCC countries and their facilities attractiveness; (2) market penetration (challenges and obstacles); and (3) traders' views on the FTA Malaysia – GCC proposal.

In order to examine the statistical significance of any relationship between the two variables, the most common test, the chi-square (x^2) test, was used in the cross-tabulation contingency table. The test, if statistically significant, indicates the relationship between the two variables (Robson, 2002: 418, Field, 2005: 236).

c) Comparing two independent variables

This analysis was used to measure the mean score differences between two different groups of people or conditions or independent variables (Pallant, 2004: 205). In order to measure these differences, it is suggested that the independent-sample T-test for parametric data or the Mann-Whitney test for

non-parametric data is needed. Prior to the test, the data need to meet the assumptions for each test. There are general assumptions to be considered for the parametric test. As suggested by Pallant (2004: 198) and Field (2005: 287), the assumptions include a level of measurement (at least one interval level is used), independence of observation, normal distribution and homogeneity of variance. If the data violates one of these assumptions, the non-parametric test should be taken into consideration.

Since the surveys conducted were not using a random sampling technique, the Mann-Whitney test was used for the analysis of independent variables. In this study, this technique was used to test for differences between two independent groups, namely the experienced and the inexperienced traders, in terms of their perceptions towards the GCC market as well as their views on the Malaysia – GCC FTA proposal. The findings from this analysis are discussed in Chapter 6.

d) Factor analysis

Factor analysis is typically used for exploratory analysis (Robson, 2002: 433). Coakes (2005: 154) and Pallant (2004), agree that data reduction is a technique used to reduce a large number of variables to a smaller set of underlying factors that summarise the essential information contained in the variables. Field (2005) added that factor analysis is constructed to reduce a large data set into more a manageable size while retaining as much of the original information as possible. It can be understood that factor analysis is used in order to reduce the number of variables being used in a study.

Therefore, in this study, the factor analysis technique was employed specifically to reduce and define the particular variables to determine the reasons that lead to the Malaysian traders' motivation to expand their business in the GCC countries. In other words, this research has used factor analysis in order to summarise the data and, in particular to identify the items and

variables which can be included or excluded and to define particular factors on these variables. Discussion on these findings is presented in Chapter 6.

A test on the data that have been collected needs to be performed before factor analysis can proceed. It is suggested that the Kaiser-Meyen-Olkin (KMO) and the Barlett test have to be done (Field, 2005). Coakes (2005: 158) suggested that factor analysis can be performed if the Bartlett test is significant and the KMO sampling adequacy is far greater than 60 percent (0.6). The analysis in Chapter 7, section 7.6 shows that the results of the Kaiser-Meyer-Olkin (KMO) and Barlett test are 72 percent, and are therefore significant for motivating Malaysian Traders to do business with their GCC counterparts.

5.4.1.3 Data collation and statistical analysis for secondary data

Secondary data were gathered from a number of institutional reports including the Arab Monetary Fund (AMF), GCC countries' economic reports, Bank Negara Malaysia (BNM), and the United Nations Economic reports. In some cases, statistical publications issued by private institutions such as the Middle Eastern Economic Digest, *etc,* were also utilised. In certain situations, economic data, especially from most of the GCC countries is unavailable or inconsistent. Therefore, this research has obtained data from international source databases. Important statistical databases such as the International Monetary Fund (IMF) World Bank, the United Nations Statistical Database (UNSD), the Direction of Trade (DOTS) database, the United Nations Commodity Trade Statistics Database (UNCOMTRADE), and the International Trade Centre (INTRACEN) have been used to acquire relevant data for some of its empirical analysis. As previously mentioned, this study has extensively utilised the Economic and Social Data Service (ESDS)[30] database provided by

[30] The Economic and Social Data Service (ESDS) is a national data service providing access and support for an extensive range of key economic and social data, both quantitative and qualitative, spanning many disciplines and themes. ESDS provides an integrated service offering enhanced support for the secondary use of data across the research, learning and teaching communities. (http://www.esds.ac.uk/)

the Universities of Essex and Manchester which are fully subscribed to by Durham University.

The quantitative analysis in this thesis involved examining macroeconomic profiles of Malaysia and the GCC states using descriptive analysis. Various economic and trade indicators were analysed over time and these included countries' GDPs, trade openness, trade growth, external balance and purchasing power parity (PPP). The descriptive analysis of these economic data was assessed and presented in Chapter 3 and Chapter 4.

The analyses of the economic backgrounds of both Malaysia and the GCC were very important in order to understand their trade patterns as well as their economic structures.

5.4.1.4 Empirical evidence from revealed comparative advantage (RCA) and trade intensity indexes analysis.

As discussed in Chapter 1, the traditional international trade theory was constructed on the premise that a country that involves itself in international trade has a comparative advantage over others. Although the theory of comparative advantage has significantly evolved in the way that a country's determination of trade is considered by other factors such as price, exchange rates, *etc*, the basic argument as to why a country becomes involved in the international trade remains the same. Thus, in analysing, products where Malaysia has a comparative advantage over the rest of the world as well as the GCC countries, Balassa's, (1965) Index on Revealed Comparative Advantage (the RCA index also known as the exports similarity index) was used.

The export products of Malaysia and GCC were examined, and their composition and change in the composition was analysed. In doing so, data from COMTRADE was used to analyse these matters. SITC data classification

was used due to its availability and consistency[31]. This gave an insight into which products that Malaysia produces have advantages in the GCC market, as well as its competitors in the Asian countries. The findings reveal which products Malaysia should give particular priority to in expanding its trade relations with the Gulf.

Prior to this, an analysis of the trade intensity index for Malaysia was also undertaken as well as for the individual GCC states. This gives an insight into Malaysia's preferable trading partners among the GCC states over the last 18 years. It shows the way that the relations have been developing.

5.4.2 **Semi-structured interviews: qualitative research method**

The semi-structured interviews that were considered necessary in order to answer the research questions were carried out by assembling primary data through the participants. This method of qualitative research was conducted to analyse the institutional and political contribution to Malaysia's trade relations with the GCC countries, and the desirability of having a Malaysia–GCC FTA. As a result, important fieldwork in Malaysia and Dubai was considered necessary in order to discover the background and underlying challenges. Qualitative methods such as interviews with policy-makers and independent economists provided valuable insights on issues such as cultural complexity, inconsistency in business regulations, and the degree of challenges which would have to be faced by the creation of an FTA.

An interview, a key element of the qualitative research strategy, involves generating conversations with people on a specific topic or range of topics and interpretations of the resultant data. There are several types of interviewing

[31] There are two different data classification on international trade product category. There are Standard International Trade Classification (SITC) classification and Harmonized System (HS). According to International Trade Centre (ITC) UNCTAD/WTO, "the main difference being that the SITC is focused more on the economic functions of products at various stages of development, whereas the HS deals with a precise breakdown of the products' individual categories". Retrieved from http://www.intracen.org/mas/sitchs.htm, access date 18 May 2009

including structured interviews, unstructured interviews, semi-structured interviews, one-to-one interviews, and group interviews. In this study, a semi-structured format was employed. It provided a valuable primary source of information on Malaysia's trade relations with the GCC from both Malaysian and GCC experts.

Like the questionnaire method, it should be borne in mind that there is a range of advantages and disadvantages in using the interview survey. Some of them are listed below, as discussed by Denscombe (2007: 202 - 203).

5.4.2.1 Advantages of the interview

a) The Interview allows the researcher to select a knowledgeable "key informant" through which valuable data and in depth information can be gathered.
b) It is a most flexible method for data collection as any adjustment to questions, or clarification required, can be dealt with straightaway during the interview session.
c) It allows the interviewees to expand their ideas, explain their views, and clarify what they regard as important, thus adding valuable information to the research.
d) Simple equipment is sufficient for the researcher to conduct the interview besides the researcher's conversation skills.
e) Validity of the survey can be assured as the interviewer has direct contact with the interviewee.
f) As an interview session is generally prearranged and scheduled at a convenient time, this ensures a relatively high response rate.

5.4.2.2 Disadvantages of the interviews

a) Compared to the analysis of questionnaire, analysis of an interview survey is more complicated and time-consuming, as it needs to be transcribed and coded.
b) An interview surveys is not pre-coded, as it is expected to contain various responses, and this may lead to non-standard responses in data analysis.
c) It is hard to achieve consistency and objectivity of the data, thus creating a problem of reliability. The data collected is unique to the specific context and specific individual involved in the interview process.
d) Using recording equipment such as voice or tape recorders can actually be intimidating to some people, and thus can inhibit the interviewee which could lead the interview to become artificial.
e) It is costly to conduct an interview if the informants are geographically dispersed. The interviewer needs to consider the travel costs which are relatively high, this compared to those in conducting questionnaire.

The advantages and disadvantages of interviews described above show that in order to conduct the interview survey, several factors such as time and budget constraints, interview limitations, and data analysis need to be taken into consideration. Since this method is seen to be the best method of seeking information on a specific topic from people with a speciality in the area of study, it was carried out during the fieldwork. In order to eliminate producing non-standard responses, thematic coded interview analysis was then performed and is discussed in Chapter 8.

5.4.2.3 Interview design

Apart from the aim of attaining the research objectives, the interview questions were designed to provide insights into some of the key aspects of this thesis which, it is expected, will clarify Malaysia's stand on economic cooperation with Muslim countries, and in particular the Arab Gulf economies. It is also expected to provide first-hand information regarding the challenges and obstacles to enhanced economic and trade relations with those economies.

The interview questions were constructed by studying the particular variables that contribute to the research objectives. Semi-structured interview considered more appropriate for this study; as it provides flexibility according to the orientation of each individual. Feedback on the design and the appropriateness of the questions were also taken into account in designing the interview questions.

5.4.2.4 Validity and reliability

The validity of an interview survey is about ensuring the robustness of the data, and/or the answers given from the interviews. Invalidity of data contributes to a degree of bias which is defined as a 'systematic of persistent tendency to make errors in the same direction; that is, to overstate or understate true value for an attribute' (Lansing cited in Cohen et al., 2007).

In conducting an interview survey, the interviewee's opinions, attitudes, and perspectives may lead to a degree of bias. However, it is possible to counter this bias, as invalidity will always exist to a certain degree in every response. Greater validity in interviews can be achieved if the amount of bias is minimised (Cohen et al., 2007). Denscombe (2007: 202) suggested that there are a few ways to increase data validity. These include checking the data with other sources, checking the transcript with the informant, checking the plausibility of the data and cross-checking the findings from other interviews (i.e: avoid relying on one interview).

Interviewers' attitudes, opinions, and expectations may also be regarded as contributing to possibilities for lies. Thus, in order to have successful interviews, it is also important that the interviewer puts aside any preconceived notions, as this may lead to the interviewer to seek answers that support them (Cohen et al., 2007). Taking this into account, the interviews were conducted while keeping an open mind and being ready to accept all answers that were given during the interview session.

Another source of bias is the misunderstanding that can develop from the questions. The personality of the interviewee and the way he or she answers the questions can also be a source of bias, especially if the responses are misinterpreted by the interviewer. Therefore, it will be useful for the interviewer to ask further questions seeking clarification if there are answers given by the interviewee which may not have been completely understood.

Reliability in qualitative methodology, specifically reliability in an interview requires a true-to-life context and situation-specificity, authenticity, comprehensiveness, detail, honesty, depth of response and meaningfulness to the respondents for the methodology to be accepted as being reliable.

5.4.2.5 Sampling

In qualitative survey (interview surveys specifically) it is very rare to determine the sample size, as there is very limited knowledge about the population from which the sample is taken. Thus, it is advised that the respondents or informants might be selected according to their relevance to the research topic rather than to whether they represented the population (Cohen et al., 2007). Therefore, qualitative researchers tend to use non-probability or non-random samples. Examples of non-probability sampling techniques are convenience sampling, quota sampling, purposive sampling and snowball sampling.

It should be noted here that due to the specialised nature of the subject matter and due to aiming at the decision-makers of Malaysia–Gulf (Middle East) relations, this interview survey was conducted with very few selected respondents. A group of interviewees from both government and private sectors were chosen according to their expected knowledge on Malaysia–GCC trade relations. Interviews with government bodies were specifically conducted by interviewing personnel from the specific department that was focusing on Malaysia and West Asia relations. The majority of the interviewees were Malaysian Nationals, except two of them who were GCC–ASIA researchers working with the Gulf Research Centre (GRC) in Dubai. Some of the Malaysian personnel were interviewed in Dubai during the researcher's fieldwork and attachment with GRC. Sessions with them were highly useful for this study as first hand information was given.

5.4.2.6 Interview administration

Prior to the interviews, potential interviewees were approached by letter, email, or fax (see Appendix 7) and invited to be interviewed. Once responses were received showing the interviewees willing to be interviewed, further appointments were made by telephone. Details of the interviewees were mostly ascertained from their particular institution's website. If these details were not found on the website, a walk-in approach to the institution was taken to arrange an appointment to see him/her thereafter. Of the fifteen prospective interviewees identified, nine agreed to be interviewed, of which only seven were considered to be sufficiently informed on the subject area.

Prior to the interview sessions, the interviewees were informed of the research and the subsequent use of the data. They were also reassured regarding the confidentiality of their information. A voice recorder was used in the interviews but only with the prior permission of each respondent. In addition, notes and key points from the responses were taken.

The interviewees were interviewed using open-ended questions (see Appendix 8) and they themselves were allowed to ask any related questions. At times additional questions were asked depending upon the individual's expertise. However, time constraints meant that questions had to be prioritised to ensure that all the important points were covered before the allotted time ended. After each interview, the responses were manually transcribed into a database allowing the researcher to identify and quickly analyse the themes and trends from the interviews.

After satisfactory interviews had been completed, qualitative analyses of the results were carried out. Discussions on the interview data analyses are presented below.

5.4.2.7 Data analysis for qualitative method

In analysing the data from the interviews, important steps were taken in order to ensure its quality and accuracy. This involved data transcribing, data editing, interpreting, and data representation. Since the interviews were recorded by using a recording device, they had to be transcribed. Although the researcher also made notes on the conversations during the interview, it was impossible to note down every single detail. Thus, the use of a tape recorder certainly helped in transcribing the data and reduced the time consumed. All the recorded conversations of the interviews were manually transcribed in as much as detail as possible. The process of listening to the recordings repeatedly was essential for transcribing the data accurately.

Once the transcriptions were done, the interviewees' responses were edited. Some of the interviews had to be even translated, because some of the interviewees used the Malay language occasionally during their interview conversations. The English translation was then checked and proof-read to make sure there were no errors in translation.

In the process of data interpretation, thematic coding analysis was employed. This involves data coding, data categorising and theme identification (Denscombe, 2007: 292). Coding the raw data from the transcriptions meant that the data were systematically tagged or labelled in the form of names, initials or numbers. By doing this, any ideas or issues arising from the survey that related to the analysis would be identified. The next task was to channel the coded data into a group of categories. Several categories were established in order to identify where the coded data belonged. The final step was to identify the themes and relationships between the codes and categories. This step was manually conducted according to established themes to reach a general view which allow representation of the views of the participants to that particular question. The findings from this analysis are presented in Chapter 8.

5.5 SUMMARY

This chapter has determined the research methodology and methods used in this thesis in order pursue the thesis's key questions as outlined in Chapter 1. It has also explained the reasons why these particular methods were used, including their advantages, disadvantages and relevance. It has also provided details on how the information and data were collated, interpreted, and analysed into the empirical analysis in this thesis.

Two major research methods, quantitative and qualitative methods, were chosen and presented in this thesis in order to shed light on the research questions which are discussed in detail in the following empirical chapters of this thesis. The quantitative methods, particularly the RCA index analysis, provide an insight into the major products that Malaysia can concentrate on in expanding its relations with the GCC countries. Moreover, the questionnaire survey helped in assessing the non-trade barriers faced by the traders, as well as enlightening their anticipation of the GCC market. This, in one way or another, may help policy-makers to mutually enhance Malaysia's trade and

economic relations with the GCC countries. The qualitative research method, in particular the interview survey, provides information on the political-economy factors that are shaping Malaysian–GCC economic relations in particular their bilateral trade relations.

Chapter 6 MERCHANDISE TRADE RELATIONS BETWEEN MALAYSIA AND GCC COUNTRIES

6.1 INTRODUCTION

Previous chapters have extensively discussed GCC and Malaysian trade patterns as well as their economic backgrounds. The discussions, however, do not provide a full indication of the extent to which two or more countries (or between countries in an economic region) prefer to trade among themselves, relative to their other trading partners in the rest of the world. For this reason, bilateral trade intensity indices are considered to be a useful method for analysing bilateral trade linkages between countries (Frankel and Rose, 1998, Heungchong, 2002, Asher and Sen, 2004).

Therefore, this chapter focuses on the empirical analysis of trade relations between Malaysia and GCC countries group during the last two decades (1990 – 2008), using available merchandise trade data at the aggregate level. Apart from regional analysis, this chapter will also analyse Malaysia's trade with the individual countries in the GCC group. Different statistical techniques have been used in the literature to examine different aspects of bilateral trade relations between countries including the revealed comparative advantage index[32]. This index is employed specifically to analyse the competitiveness of Malaysian exports to the GCC market.

This chapter is organised as follows. An analysis of trade linkages concerning Malaysia-GCC bilateral economic relations is analysed in section 6.2. This section also investigates pattern of bilateral trade relation between Malaysia and GCC. This is followed by a statistical analysis of bilateral trade linkages using aggregate bilateral merchandise trade data and additionally concentrates on an estimation of bilateral trade intensities in section 6.3.

[32] Due to data availability during the analysis was done, RCA index for Malaysia with respect to the GCC only used data from 1998 – 2007.

Further analysis on Malaysia's trade composition with the GCC countries is discussed in section 6.4. Finally, important empirical analysis on Revealed Comparative Advantage (RCA) and a discussion on the RCA index findings are presented in section 6.5.

6.2 TRENDS IN MALAYSIA - GCC RELATIONS: BILATERAL TRADE PERSPECTIVES

Previous discussion on Malaysian economic development as well as its trade patterns, destinations and relationships with other trading partners shows that Malaysian trade has gradually diversified over the last decade. As a developing Muslim nation, Malaysia has put more effort in strengthening its trade linkages with other Muslim countries in the world; details of which are discussed in Chapter 4.

Over the years, Malaysia's bilateral relations with the GCC group have intensified, with the impact of globalisation and the increasing importance of trade and commerce. However, Malaysia's involvement in strengthening its economic relations with the GCC group is rather strong with only certain individual single country in the group, i.e.: Saudi Arabia and UAE, even though the GCC is a custom union. In the view of this fact, Malaysia has managed to sign a number of bilateral agreements with individual GCC countries, for example, Malaysia has established legal framework with the UAE to further develop and enhance their relations. In fact, Malaysia initially signed trade agreement with the UAE in 1962 (MITI, 2007: 239). On the other hand, Malaysia has also actively invested in the Gulf economic region, especially in construction and financial services. Moreover, recent development shows that Malaysia has invited investors from the GCC region, particularly from the United Arab Emirates, Qatar and Saudi Arabia through these countries' sovereign wealth fund to actively invest in Malaysian economic development. This is due to these countries interests in the Malaysia's estates development, Islamic financial industries and *Halal* products development.

Apart from the religious affinity that both Malaysia and GCC share, economic and political ties have also significantly contributed to Malaysia - GCC relations. In the meantime, Malaysia has been keen on having strong bilateral trade with the GCC and is considering discussing further on a Free Trade Agreement (FTA) with other GCC member countries (Bernama, 2007, Rafique, 2009) despite the suggestion of ASEAN–GCC FTA (Yong, 2006, Tong, 2008, Yeo, 2010). This has been stressed by the Malaysian trade ambassador in the UAE during the author's interview with him;

> *"It is a good opportunity to have an FTA with the GCC countries; this would create an Image of Malaysia as a Muslim country. It is also preferable to have Malaysia-GCC FTA rather than ASEAN-GCC as this would create more benefit with them".* (Author's interview with Malaysian trade ambassador in Dubai, 2009).

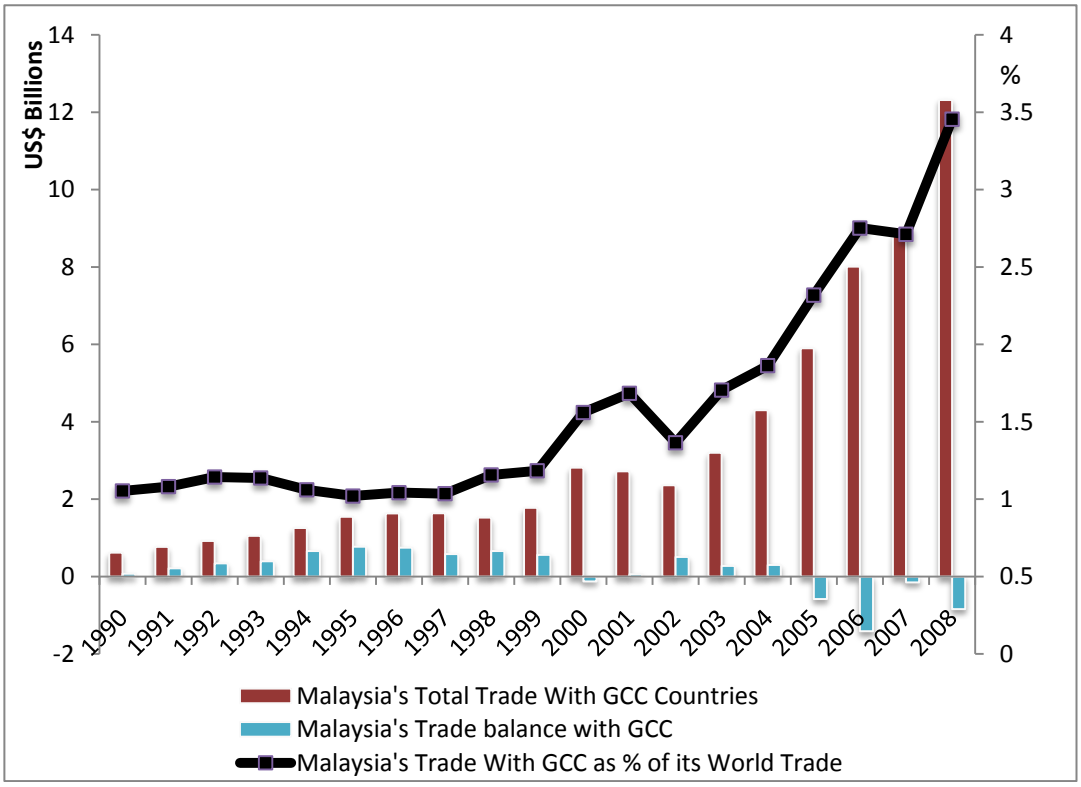
As a major trading nation, Malaysia realises that trade plays an important role in the country's economy and overall development. To remain competitive and economically stable, the expansion of trade is vital; therefore, the country must continuously seek new markets for its products. Middle-eastern countries, particularly the rich Gulf countries, are seen as a potential markets in which Malaysia can expand and diversify its international trade. Among the GCC countries, the UAE has featured strongly in Malaysia's efforts to achieve that objective and Malaysia has benefited from the UAE's efforts to establish itself as a trade and service hub in the Middle East.

6.2.1 **Patterns of Trade between Malaysia and the GCC**

A brief discussion on both countries economic and trade backgrounds has been provided earlier in this thesis. The discussion depicted the structure and development of their trade patterns between 1990 and 2008. As explained earlier, the volume of trade between Malaysia and the GCC countries is small, and the full potential of their large markets has yet to be fully explored. While Malaysian leaders urge the OIC to promote more trade amongst its member

states (Mahmood, 2003, Mohammad, 2003b), the government makes its own efforts to promote trade with certain individual OIC members.

Figure 6-1: Malaysia's Trade with the GCC: Various Indicators



Source: Calculated from Direction of Trade Statistic (DOT), International Monetary Fund (IMF), April (2008a), Economic and Social Data Services International, (Mimas) University of Manchester.

As a result, commercial ties between Malaysia and Muslim countries have expanded in recent years, trade between the Arab Gulf countries and Malaysia being no exception. In fact, among the Muslim countries, the GCC group remains Malaysia's major trading partner. Statistically, overall trade between Malaysia and GCC member countries has been growing since 1999; reaching the US$ 3 billion mark in 2003. In 2007 total trade with the GCC reached US$ 8.6 billion, four times greater than in 1999. Total trade between Malaysia and the GCC in 2008 has marked the highest level with amounted US$ 12.32 billion which is believed due to increase on world oil prices in 2008. This is depicted in Figure 6-1.

It is also observed that Malaysia's trade balance with the GCC was in surplus from 1990 to 2005 except in 2001. Oil prices increased between 2006 and 2008 had affected the trade balance between Malaysia and the GCC countries.

Although, there were increasing volumes of trade with the GCC, it does not mean that Malaysia directed its trade to the GCC countries. To assess these shifts, the total share for Malaysia's trade with the GCC countries needs to be analysed. Tables 6.1 – 6.3 reveal Malaysia's bilateral trade, its exports, and imports with the individual GCC countries and its total trade with the whole GCC group between 1990 and 2008. The data is obtained from the Direction of Trade Statistics (DOTS) and the International Monetary Fund (IMF). The following observation may be made on the basis of these tables;

Firstly, Malaysia's trade with the GCC countries grew at an average of 20.34 % over the whole period from 1990 – 2008, which is significant compared to its trade growth with the rest of the world which averaged of 12.45 %. As shown in the tables and Figure 6-1, the volumes of trade between Malaysia and GCC had been five times greater in 2008 than in 2000. It is observed that the bulk increase in trade was largely a result of Malaysia's imports from GCC countries which had increased by an average of 30.52 % during the 2002 – 2008 period (see Table 5.2c), while exports to the GCC increased by only 21.52 %.

Since Malaysia's imports from the GCC have outpaced those of its exports, the balance of trade has been largely in favour of the GCC. In 2008, Malaysia had its highest bilateral trade deficit with Saudi Arabia (US$1.2 billion), followed by that with Oman (US$ 0.64 billion), then with Kuwait (US$ 0.13 billion) and Bahrain (US$ 0.04 billion), while registering a bilateral trade surplus only with the United Arab Emirates for three consecutive years since 2006. It is believed that, oil prices factor contributed to these trade deficits.

Secondly, Malaysia's exports to the GCC multiplied from about US$300 million in 1990 (1.17 per cent of its world exports) to US$ 5.7 billion in 2008 (2.88 percent of its world exports). Malaysia's exports to the GCC rose from US$ 1.1 billion in 1999 to US$ 1.73 billion in 2003. For long time Malaysia's exports had been below US$ 2 billion, but its total exports reached US$ 2.3 billion in 2004 and witnessed robust growth thereafter with an annual average growth rate of 22.86 percent during 2004 – 2008. As a result, the share of the GCC countries in Malaysia's total exports increased from 1.18 % in 1999 to 2.88 % in 2008, indicating an increase of 200 percent for Malaysia's exports to the GCC in the same period.

The overall trend has been upwards, except during the East Asian financial crisis in 1997 – 1999. However, export values between Malaysia and the GCC have already surpassed the pre-crisis peak and improved further after 2003. The rising trend of exports from Malaysia to the GCC has been followed by a shift in the share of individual countries in Malaysia's total exports to the GCC during this period. With the exception of Saudi Arabia, the share of all other GCC member countries in Malaysia's exports rose during the 1990–2008 period, with a six-fold increase in exports to Qatar. Malaysia's trade share with Saudi Arabia has slightly decreased as compared to 1990 in 2007 but somewhat remained the same proportion in 2008. However, Saudi Arabia remained the second largest market in the GCC for Malaysia's exports in 2008 after the United Arab Emirates and followed by Qatar, Oman, Kuwait and Bahrain.

Thirdly, the value of Malaysia's imports from the GCC was multiplied, about 24 times, as compared to 19 years ago, from US$ 0.272 billion in 1990 to about US$ 6.58 billion in 2008. The GCC accounted for 3.02 per cent and 4.19 per cent of Malaysia's imports from the world in 2007 and 2008 respectively. Its total imports from the GCC have also increased from US$0.6 billion in 1999 to US$ 6.58 billion in 2008. After a huge decline in 2002, its imports from the

region witnessed a highly significant growth thereafter with more than the increment in 2002. Thus, it is clear that the GCC countries are more important sources of Malaysia's import than they are of its exports, as the recent data shows. Although Malaysia is not so important as trading partner for the GCC countries, recent developments have shown some remarkable trends.

Fourthly, as with exports, the rising level of Malaysian imports from the Gulf has also been developing with a shift in the share of individual GCC countries during this period. With the exception of Qatar, the share of all other GCC members in Malaysia's exports registered an increase over the 1990–2008 periods. This is led by an almost thirty-fold increase of Malaysia's import from Oman. Saudi Arabia, too, provided a considerable amount of imports to Malaysia.

On this analysis of trade linkages, shares and growth rates were used in analysing trade linkages between these countries. Such indicators are believed to explain explicitly Malaysia's trade expansion with the GCC countries. This, however is insufficient to determine the actual intensity of the bilateral trade linkages, especially in relation to Malaysia's trading partners in the GCC. Therefore, the following section focuses on the trade intensity index between Malaysia and GCC.

Table 6-1: Malaysia's Total Trade with the GCC, Aggregate Indicators (1990–2008)

Year / Malaysia's trade with	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
the World (W_t) US$ Billion	58.59	71.16	80.64	92.76	118.31	151.36	156.68	157.97	131.81	150.05	180.36	161.56	172.90	187.70	230.81	254.59	291.14	325.41	356.44
Annual Growth	22.99	21.44	13.33	15.02	27.55	27.93	3.51	0.82	-16.56	13.84	20.20	-10.42	7.02	8.56	22.97	10.30	14.36	11.77	9.54
GCC (US$ billion) (G_t)	.62	.77	.92	1.05	1.25	1.54	1.63	1.64	1.52	1.78	2.81	2.72	2.36	3.20	4.30	5.90	8.01	8.82	12.32
Annual Growth	14.99	24.68	19.84	14.40	18.96	23.11	5.73	0.18	-6.82	16.49	58.45	-3.31	-13.29	35.67	34.35	37.28	35.72	10.13	39.57
Trade with GCC (G_t) / (W_t) trade with World (%)	1.05	1.08	1.14	1.14	1.06	1.02	1.04	1.04	1.16	1.18	1.56	1.68	1.36	1.71	1.86	2.32	2.75	2.71	3.46
Bahrain (US$ million)	**28.5**	**20.6**	**33.3**	**34.5**	**37.4**	**62.9**	**39.6**	**56.4**	**54.3**	**81.9**	**83.0**	**82.9**	**70.7**	**77.4**	**112.9**	**149.8**	**195.2**	**184.3**	**217.2**
Share in GCC (%)	4.61	2.68	3.61	3.27	2.98	4.08	2.43	3.45	3.56	4.61	2.95	3.05	3.00	2.42	2.63	2.54	2.44	2.09	1.76
Share in Total trade	0.05	0.03	0.04	0.04	0.03	0.04	0.03	0.04	0.04	0.05	0.05	0.05	0.04	0.04	0.05	0.06	0.07	0.06	0.06
Annual Growth	87.45	-27.67	61.57	3.87	8.29	68.29	-37.05	42.36	-3.80	50.86	1.43	-0.18	-14.66	9.43	45.84	32.73	30.26	-5.59	17.87
Kuwait (US$ million)	**41.2**	**12.9**	**37.8**	**38.7**	**79.6**	**135.9**	**107.0**	**75.1**	**89.7**	**130.5**	**131.5**	**130.0**	**117.3**	**143.8**	**175.4**	**394.3**	**467.3**	**769.9**	**887.9**
Share in GCC (%)	6.69	1.67	4.10	3.67	6.35	8.80	6.55	4.59	5.89	7.35	4.67	4.78	4.97	4.49	4.08	6.68	5.83	8.73	7.21
Share in Total trade	0.07	0.02	0.05	0.04	0.07	0.09	0.07	0.05	0.07	0.09	0.07	0.08	0.07	0.08	0.08	0.15	0.16	0.24	0.25
Annual Growth	-59.53	-68.78	193.50	2.36	105.77	70.67	-21.26	-29.77	19.45	45.41	0.77	-1.18	-9.72	22.51	22.05	124.75	18.50	64.75	15.33
Oman (US$ million)	**17.3**	**26.2**	**36.3**	**35.0**	**98.2**	**45.9**	**34.1**	**42.4**	**41.5**	**106.2**	**416.8**	**455.6**	**334.0**	**518.8**	**468.8**	**591.0**	**984.3**	**620.1**	**1,102.0**
Share in GCC (%)	2.81	3.40	3.94	3.32	7.83	2.97	2.09	2.59	2.72	5.98	14.81	16.75	14.16	16.21	10.90	10.01	12.29	7.03	8.95
Share in Total trade	0.03	0.04	0.05	0.04	0.08	0.03	0.02	0.03	0.03	0.07	0.23	0.28	0.19	0.28	0.20	0.23	0.34	0.19	0.31
Annual Growth	12.83	50.81	38.91	-3.65	180.66	-53.32	-25.70	24.35	-2.01	155.82	292.50	9.31	-26.69	55.32	-9.63	26.06	66.55	-37.00	77.72
Qatar (US$ million)	**21.2**	**9.4**	**12.3**	**24.6**	**20.2**	**20.6**	**23.2**	**36.8**	**39.7**	**32.3**	**66.0**	**77.1**	**56.1**	**53.4**	**70.5**	**150.0**	**266.1**	**315.9**	**508.6**
Share in GCC (%)	3.43	1.22	1.34	2.33	1.61	1.33	1.42	2.25	2.61	1.82	2.34	2.83	2.38	1.67	1.64	2.54	3.32	3.58	4.13
Share in Total trade	0.04	0.01	0.02	0.03	0.02	0.01	0.01	0.02	0.03	0.02	0.04	0.05	0.03	0.03	0.03	0.06	0.09	0.10	0.14
Annual Growth	100.32	-55.57	31.28	99.08	-17.74	1.91	12.57	58.79	7.90	-18.77	104.38	16.94	-27.24	-4.81	32.07	112.60	77.44	18.70	61.00
Saudi Arabia (US$ million)	**297.2**	**387.8**	**472.3**	**539.6**	**491.3**	**557.6**	**647.3**	**659.4**	**510.7**	**588.1**	**956.2**	**977.7**	**781.3**	**991.8**	**1,467.0**	**2,020.9**	**2,860.1**	**2,692.6**	**3,325.9**
Share in GCC (%)	48.17	50.41	51.22	51.16	39.16	36.10	39.64	40.30	33.50	33.11	33.98	35.94	33.12	30.99	34.12	34.24	35.70	30.52	27.01
Share in Total trade	0.51	0.55	0.59	0.58	0.42	0.37	0.41	0.42	0.39	0.39	0.53	0.61	0.45	0.53	0.64	0.79	0.98	0.83	0.93
Annual Growth	21.14	30.49	21.77	14.26	-8.96	13.49	16.09	1.87	-22.55	15.15	62.60	2.25	-20.09	26.94	47.90	37.76	41.52	-5.86	23.52
UAE (US$ million)	**0.21**	**312.5**	**330.0**	**382.3**	**527.9**	**721.7**	**781.9**	**766.0**	**788.5**	**837.0**	**1,160.3**	**997.3**	**999.5**	**1,415.3**	**2,005.2**	**2,597.0**	**3,238.7**	**4,240.7**	**6,273.7**
Share in GCC (%)	34.29	40.62	35.79	36.25	42.07	46.73	47.88	46.82	51.73	47.13	41.24	36.66	42.37	44.22	46.63	43.99	40.42	48.06	50.94
Share in Total trade	0.36	0.44	0.41	0.41	0.45	0.48	0.50	0.48	0.60	0.56	0.64	0.62	0.58	0.75	0.87	1.02	1.11	1.30	1.76
Annual Growth	42.78	47.68	5.60	15.85	38.09	36.71	8.34	-2.04	2.95	6.14	38.63	-14.05	0.23	41.60	41.68	29.51	24.71	30.94	47.94

Table 6-2: Malaysia's Total Export to the GCC, Aggregate Indicators (1990 – 2008)

Year / Malaysia's exports to	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
the World (W_x) US$ Billion	29.42	34.41	40.71	47.13	58.75	73.73	78.22	78.91	73.47	84.55	98.15	88.20	93.39	104.97	126.51	140.98	160.66	176.67	199.51
Annual Growth	14.9	16.9	18.3	15.8	24.7	25.5	6.1	0.9	-6.9	15.1	16.1	-10.1	5.9	12.4	20.5	11.4	14.0	10.0	12.9
GCC (US$ million) (G_x)	344.2	490.5	630.8	726.1	956.5	1,157.5	1,190.7	1,108.1	1,092.3	1,168.1	1,345.1	1,391.3	1,433.9	1,738.8	2,299.5	2,661.0	3,300.8	4,336.9	5,737.5
Annual Growth	16.21	42.51	28.61	15.10	31.73	21.01	2.86	-6.94	-1.42	6.94	15.15	3.44	3.06	21.27	32.25	15.72	24.04	31.39	32.29
Exports to GCC (G_x) / (W_x) Exports to World (%)	1.17	1.43	1.55	1.54	1.63	1.57	1.52	1.40	1.49	1.38	1.37	1.58	1.54	1.66	1.82	1.89	2.05	2.45	2.88
Bahrain (US$ million)	**12.2**	**13.5**	**20.4**	**17.7**	**26.9**	**25.8**	**21.7**	**25.0**	**34.7**	**26.5**	**29.8**	**27.1**	**32.1**	**33.1**	**34.6**	**41.7**	**54.6**	**61.4**	**84.4**
Share in GCC (%)	3.55	2.76	3.23	2.44	2.82	2.23	1.82	2.26	3.18	2.27	2.21	1.95	2.24	1.91	1.51	1.57	1.65	1.42	1.47
Share in Total exports	0.04	0.04	0.05	0.04	0.05	0.04	0.03	0.03	0.05	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.04
Annual Growth	20.24	10.51	50.83	-13.26	52.28	-4.11	-16.17	15.66	38.60	-23.66	12.36	-8.90	18.46	3.18	4.50	20.35	30.88	12.53	37.41
Kuwait (US$ million)	**15.0**	**12.8**	**34.6**	**38.1**	**48.8**	**67.6**	**69.8**	**65.8**	**61.2**	**70.4**	**68.7**	**63.3**	**71.0**	**89.8**	**107.9**	**122.2**	**159.9**	**168.2**	**376.5**
Share in GCC (%)	4.36	2.62	5.49	5.25	5.11	5.84	5.86	5.93	5.60	6.03	5.11	4.55	4.95	5.16	4.69	4.59	4.85	3.88	6.56
Share in Total exports	0.05	0.04	0.09	0.08	0.08	0.09	0.09	0.08	0.08	0.08	0.07	0.07	0.08	0.09	0.09	0.09	0.10	0.10	0.19
Annual Growth	-37.68	-14.42	169.53	10.08	28.15	38.35	3.27	-5.74	-6.96	15.07	-2.38	-7.92	12.18	26.44	20.24	13.16	30.92	5.15	123.89
Oman (US$ million)	**17.0**	**23.2**	**27.6**	**29.5**	**93.8**	**38.0**	**32.8**	**38.4**	**41.1**	**36.7**	**44.3**	**96.7**	**49.6**	**52.4**	**71.4**	**81.0**	**99.8**	**151.6**	**230.5**
Share in GCC (%)	4.93	4.74	4.37	4.06	9.81	3.28	2.75	3.47	3.76	3.14	3.30	6.95	3.46	3.01	3.11	3.04	3.02	3.50	4.02
Share in Total exports	0.06	0.07	0.07	0.06	0.16	0.05	0.04	0.05	0.06	0.04	0.05	0.11	0.05	0.05	0.06	0.06	0.06	0.09	0.12
Annual Growth	12.44	37.07	18.54	6.95	218.42	-59.52	-13.78	17.36	6.95	-10.76	20.87	118.15	-48.78	5.67	36.46	13.38	23.22	51.89	52.05
Qatar (US$ million)	**9.8**	**5.5**	**6.2**	**8.3**	**9.0**	**10.8**	**12.4**	**17.2**	**32.4**	**13.6**	**20.2**	**29.5**	**39.5**	**39.3**	**50.3**	**96.0**	**186.4**	**292.2**	**241.2**
Share in GCC (%)	2.86	1.13	0.98	1.14	0.94	0.93	1.04	1.56	2.96	1.16	1.50	2.12	2.75	2.26	2.19	3.61	5.65	6.74	4.20
Share in Total exports	0.03	0.02	0.02	0.02	0.02	0.01	0.02	0.02	0.04	0.02	0.02	0.03	0.04	0.04	0.04	0.07	0.12	0.17	0.12
Annual Growth	94.02	-43.82	12.36	33.61	8.15	20.06	15.02	39.24	87.77	-58.00	48.47	46.11	33.98	-0.48	27.96	90.76	94.27	56.75	-17.46
Saudi Arabia (US$ million)	**151.2**	**191.9**	**265.6**	**279.6**	**271.8**	**329.4**	**318.8**	**299.2**	**279.9**	**300.6**	**322.9**	**341.2**	**383.3**	**408.7**	**481.8**	**473.2**	**530.3**	**716.1**	**1,054.0**
Share in GCC (%)	43.92	39.13	42.11	38.50	28.41	28.46	26.77	27.00	25.62	25.73	24.01	24.53	26.73	23.50	20.95	17.78	16.07	16.51	18.37
Share in Total exports	0.51	0.56	0.65	0.59	0.46	0.45	0.41	0.38	0.38	0.36	0.33	0.39	0.41	0.39	0.38	0.34	0.33	0.41	0.53
Annual Growth	4.79	26.97	38.39	5.24	-2.77	21.21	-3.23	-6.15	-6.46	7.41	7.44	5.66	12.32	6.63	17.87	-1.78	12.08	35.02	47.20
UAE (US$ million)	**139.0**	**243.4**	**276.4**	**353.0**	**506.2**	**685.9**	**735.3**	**662.4**	**643.1**	**720.3**	**859.1**	**833.4**	**858.5**	**1,115.6**	**1,553.5**	**1,847.0**	**2,269.7**	**2,947.5**	**3,750.9**
Share in GCC (%)	40.38	49.63	43.82	48.62	52.92	59.26	61.76	59.78	58.87	61.67	63.87	59.90	59.87	64.15	67.55	69.41	68.76	67.96	65.37
Share in Total exports	0.47	0.71	0.68	0.75	0.86	0.93	0.94	0.84	0.88	0.85	0.88	0.94	0.92	1.06	1.23	1.31	1.41	1.67	1.88
Annual Growth	42.53	75.15	13.55	27.70	43.38	35.52	7.20	-9.92	-2.92	12.01	19.27	-2.99	3.00	29.95	39.25	18.90	22.89	29.86	27.26

Table 6-3: Malaysia's Total Imports from the GCC, Aggregate Indicators (1990–2008)

Year / Malaysia's imports from	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2007
the World (Wm) US$ Billion	29.17	36.75	39.93	45.63	59.56	77.63	78.46	79.06	58.34	65.50	82.20	73.36	79.51	82.73	104.30	113.61	130.48	148.74	156.93
GCC (US$ million) (Gm)	272.8	278.8	291.1	328.6	298.1	387.1	442.4	528.0	432.1	607.8	1,468.8	1,329.3	925.2	1,461.7	2,000.3	3,242.1	4,710.9	4,486.5	6,577.7
Annual Growth	13.5	2.19	4.43	12.87	-9.27	29.83	14.29	19.36	-18.15	40.64	141.67	-9.49	-30.40	57.99	36.85	62.08	45.30	-4.76	46.61
Imports from GCC (Gm) / (Wm) Imports from world (%)	0.94	0.76	0.73	0.72	0.50	0.50	0.56	0.67	0.74	0.93	1.79	1.81	1.16	1.77	1.92	2.85	3.61	3.02	4.19
Bahrain (US$ million)	**16.2**	**7.1**	**12.9**	**16.9**	**10.5**	**37.1**	**18.0**	**31.4**	**19.6**	**55.4**	**53.3**	**55.8**	**38.6**	**44.3**	**78.3**	**108.2**	**140.6**	**122.9**	**132.8**
Share in GCC (%)	5.95	2.53	4.42	5.13	3.51	9.59	4.06	5.94	4.53	9.11	3.63	4.20	4.17	3.03	3.91	3.34	2.99	2.74	2.02
Share in Total Imports	0.06	0.02	0.03	0.04	0.02	0.05	0.02	0.04	0.03	0.08	0.06	0.08	0.05	0.05	0.08	0.10	0.11	0.08	0.08
Annual Growth	224.16	-56.47	82.14	31.03	-37.88	254.58	-51.57	74.53	-37.65	183.10	-3.80	4.69	-30.77	14.63	76.81	38.21	30.02	-12.62	8.10
Kuwait (US$ million)	**26.2**	**0.0**	**3.2**	**0.6**	**30.8**	**68.3**	**37.2**	**9.4**	**28.6**	**60.1**	**62.8**	**66.7**	**46.3**	**54.0**	**67.5**	**272.2**	**307.3**	**601.7**	**511.4**
Share in GCC (%)	9.62	0.01	1.09	0.18	10.33	17.65	8.41	1.78	6.61	9.89	4.27	5.02	5.01	3.69	3.37	8.39	6.52	13.41	7.77
Share in Total Imports	0.09	0.00	0.01	0.00	0.05	0.09	0.05	0.01	0.05	0.09	0.08	0.09	0.06	0.07	0.06	0.24	0.24	0.40	0.33
Annual Growth	-66.29	-99.86	8734.43	-81.52	5131.61	121.95	-45.52	-74.81	204.66	110.42	4.46	6.21	-30.51	16.49	25.05	303.20	12.93	95.77	-15.01
Oman (US$ million)	**0.4**	**2.9**	**8.8**	**5.5**	**4.4**	**7.9**	**1.3**	**3.9**	**0.4**	**69.5**	**372.5**	**358.9**	**284.5**	**466.4**	**397.4**	**510.0**	**884.5**	**468.5**	**871.5**
Share in GCC (%)	0.14	1.04	3.01	1.68	1.48	2.03	0.30	0.74	0.09	11.44	25.36	27.00	30.75	31.91	19.87	15.73	18.78	10.44	13.25
Share in Total Imports	0.00	0.01	0.02	0.01	0.01	0.01	0.00	0.00	0.00	0.11	0.45	0.49	0.36	0.56	0.38	0.45	0.68	0.31	0.56
Annual Growth	33.65	660.50	201.79	-36.93	-20.46	78.83	-83.26	197.98	-89.70	17084.40	435.86	-3.65	-20.74	63.96	-14.80	28.33	73.44	-47.03	86.02
Qatar (US$ million)	**11.3**	**3.9**	**6.1**	**16.3**	**11.2**	**9.8**	**10.8**	**19.6**	**7.4**	**18.7**	**45.8**	**47.6**	**16.6**	**14.1**	**20.2**	**54.0**	**79.7**	**23.7**	**267.4**
Share in GCC (%)	4.15	1.39	2.11	4.95	3.77	2.54	2.44	3.71	1.70	3.07	3.12	3.58	1.80	0.97	1.01	1.67	1.69	0.53	4.07
Share in Total Imports	0.04	0.01	0.02	0.04	0.02	0.01	0.01	0.02	0.01	0.03	0.06	0.06	0.02	0.02	0.02	0.05	0.06	0.02	0.17
Annual Growth	106.12	-65.76	58.22	165.26	-30.92	-12.56	9.89	81.18	-62.40	153.70	145.06	4.08	-65.12	-15.10	43.52	166.86	47.54	-70.28	1028.64
Saudi Arabia (US$ mil)	**146.0**	**195.9**	**206.6**	**260.1**	**219.5**	**228.1**	**328.5**	**360.2**	**230.8**	**287.5**	**633.3**	**636.5**	**398.1**	**583.1**	**985.2**	**1,547.8**	**2,329.8**	**1,976.6**	**2,271.8**
Share in GCC (%)	53.53	70.26	70.98	79.15	73.63	58.94	74.26	68.22	53.41	47.30	43.12	47.88	43.03	39.89	49.25	47.74	49.45	44.06	34.54
Share in Total Imports	0.50	0.53	0.52	0.57	0.37	0.29	0.42	0.46	0.40	0.44	0.77	0.87	0.50	0.70	0.94	1.36	1.79	1.33	1.45
Annual Growth	44.48	34.13	5.49	25.87	-15.60	3.94	43.99	9.65	-35.92	24.55	120.29	0.51	-37.46	46.49	68.95	57.10	50.53	-15.16	14.94
UAE (US$ million)	**72.6**	**69.0**	**53.5**	**29.3**	**21.7**	**35.8**	**46.5**	**103.5**	**145.4**	**116.6**	**301.2**	**163.8**	**141.1**	**299.8**	**451.7**	**750.0**	**968.9**	**1,293.2**	**2,522.8**
Share in GCC (%)	26.61	24.76	18.39	8.91	7.29	9.24	10.52	19.61	33.65	19.19	20.51	12.33	15.25	20.51	22.58	23.13	20.57	28.82	38.35
Share in Total Imports	0.25	0.19	0.13	0.06	0.04	0.05	0.06	0.13	0.25	0.18	0.37	0.22	0.18	0.36	0.43	0.66	0.74	0.87	1.61
Annual Growth	43.26	-4.92	-22.44	-45.34	-25.74	64.58	30.14	122.45	40.47	-19.81	158.26	-45.60	-13.89	112.48	50.70	66.02	29.19	33.47	95.08

6.3 AN ANALYSIS OF BILATERAL TRADE LINKAGES (TRADE INTENSITY INDEX)

The previous section has intensively analysed trade shares between Malaysia and the GCC. This however, as noted earlier, does not indicate that both Malaysia and the GCC countries prefer to trade amongst themselves. Thus, it is suggested that bilateral trade linkages might be analysed through trade intensity indexes pertaining to total trade, exports and imports. These essentially seek to establish the relative importance of the trading partners in relation to their trade with the rest of the world[33]. The analysis in this section, therefore, uses these intensity indices to estimate the extent of bilateral trade between Malaysia and the GCC countries over the period 1990 – 2008. It is also expected to identify changes in the pattern of trade relations over the period.

There are several methods that have been used to examine bilateral trade intensity between two trading countries. Among them, Frankel (1997) and Frankel and Rose (1998) provides an intensive methods in analysing bilateral trade intensity index. Nevertheless, Frankel and Rose's argument is basically to facilitate an evaluation of the suitability of the optimum currency areas (Heungchong, 2002)

Therefore, in examining the propensity to trade between Malaysia and GCC, bilateral trade intensity index which is proposed by Rahul and Sen (2004, 2005) and Sen (2002) was utilised in this research. This is due to its suitability and appropriateness to analyse and estimate how intense one country (i.e: Malaysia) trades with its trading partner, (i.e: Saudi Arabia), in relation to its total trade with the rest of the world. According to Sen (2002) this index "can be decomposed into export and import intensities to analyze the importance of a trading partner as an export/import market separately". Further discussion on this index and its interpretation are as below.

[33] In other word, trade intensity index is defined as the ratio of two export shares. It is the share of the destination of interest in the exports of the region under study divided by the share of the destination of interest in the exports of the world as a whole.

Total trade intensity

The bilateral trade intensity index for total trade is as follows:

$$Tij = \left[\frac{Xij+Mij}{Xi+Mi}\right] / \left[\frac{[Xwj+Mwj)-(Xij+Mij)]}{[(Xw+Mw)-(Xi+Mi)]}\right] \qquad (6.1)$$

where: T_{ij} = Total trade intensity index for country i with country j; X_{ij} = Exports of country i to j; M_{ij} = Imports of country i from j; X_i = Total exports of country i; M_i = Total imports of country i; X_{wj}= Total world exports to country j; M_{wj} = Total world imports from country j; and X_w = Total world exports; M_w = Total world imports.

Rahul and Sen (2005: 24) interpreted this index as a relative measure of two ratios. According to them, the numerator represents the share of bilateral trade between country i and j as a percentage of total trade of country i (the share of Malaysian exports to GCC). This forms the numerator of the total trade intensity index. The second ratio in the denominator represents the total trade of country j with the world excluding country i as a share of total world trade excluding country i (share of the GCC exports to the world) which forms the denominator of the total trade intensity index.

If the numerator exceeds the denominator, i.e. if the value of $T_{ij} > 1$, it implies that the bilateral trade intensity for country i with country j is greater than in comparison to country i's trade with the rest of the world. For instance, if Malaysia is regarded as country i and country j is represented by its trading partners, i.e. the GCC, then a value of $T_{ij} > 1$ implies that Malaysia's trade is more intensively with the GCC than with the rest of the world.

Export Intensity Index

The bilateral export intensity index between country i and country j may be stated as follows:

$$X_{\alpha ij} = \left[\frac{X_{ij}}{X_i}\right] / \left[\frac{(M_j - M_{ji})}{(M_w - M_i)}\right] \qquad (6.2)$$

This specification represent exports intensity index of country *i* to country *j.* The symbols mean as follows; $X_{\alpha ij}$ = exports intensity of country *i* to country *j.* X_{ij} = Exports of country *i* to *j*; X_i = Total exports of country *i; Mj* = Total imports of country *j* and M_{ji} = Imports of country *j* from country *i*, X_w = Total world exports; M_w = Total world imports. A value of this index above unity implies that country *i*'s relative share of exports to country *j* exceeds country *j*'s share of imports from the rest of the world. This implies an overrepresentation of country *j* in country *i*'s export market. Thus, it can be said that, if the value of greater than one indicates that country *i* has a relatively greater intensity in exporting to country *j* compared to country *j*'s imports from the rest of the world.

Import Intensity Index

The import intensity index may be stated as follows:

$$M_{\alpha ij} = \left[\frac{Mij}{Mi}\right] / \left[\frac{(Xj - Xji)}{(Xw - Xi)}\right] \qquad (6.3)$$

$M_{\alpha ij}$ represents import intensity of country *i* to country *j;* M_{ij} = imports of country *i* from *j*; M_i = total imports of country *i*; X_j = total exports of country j; and X_{ji} = Exports of country *j* to country *i,* X_w = Total world exports; M_w = Total world imports. High value more than one of this index implies that country *i*'s relative share of imports to country *j* exceeds country *j*'s share of exports to the rest of the world. This means an over-representation of country *j* in country *i*'s import market. By this, it can be interpreted that country *i* has relatively greater intensity in importing from country *j* compared to country *j*'s exports to the rest of the world.

Analyses of these trade intensity indices show that Malaysia's trade intensity with GCC countries individually as well as with them as a group was not very high (with an average of 0.7 in 1990 - 2008). Table 6-4 to Table 6-12 depict the trade intensity indices between Malaysia and GCC member countries. Table 6-4 shows that in the early 1990s trade intensity between Malaysia and GCC group was only around 0.5 and or below than that figure. Nevertheless, it is observed

that the total trade intensity between Malaysia and the GCC between 1997 and 2000 gradually increased from only 0.53 in 1997 to 0.85 in 2000.

Surprisingly, the beginning of the new millennium saw a different trend for trade relations between Malaysia and the GCC. Due to a number of factors such as the September 11 catastrophe, and the trade diversification strategy that Malaysia has implemented since 2003 and pursued with other Muslim countries, there has been a constant increase in trade intensity between them. Consequently, this intensity had increased to 1.007 in 2006 but with slight decrease in 2007. In 2008, trade intensity index between Malaysia and the GCC increased again to 1.047. It is believed that this trend will continue as Malaysia is consistently looking for new trading partners and the GCC countries are further liberalising their economies.

Individually, trade intensity between Malaysia and individual GCC countries shows a somewhat similar pattern. Except for Oman and the UAE, the rest of the GCC countries seem less attracted to trade more with Malaysia as the index is below 1, which can be interpreted as their unwillingness to trade more with Malaysia. The trends therefore represent an 'over-representation' of the UAE and Oman as trading partners for Malaysia vis-à-vis the rest of the world, and the index value for Malaysia with Bahrain, Kuwait, Qatar and Saudi Arabia suggests an under-representation of these countries compared to Malaysia's trade with the rest of the world. It is also believed that the high level of trade between Malaysia and United Arab Emirates can be attributed to the role of Dubai as a re-export hub (entre-port) in the GCC region. Table 6-4 shows that Malaysia's trade intensity with the UAE has been around 0.8 – 1.6 over the last two decades.

Specifically, analysing export and import intensities between Malaysia and GCC countries shows the propensity between them. Table 6-5 reveals that, in general, Malaysia prefers to export to the GCC countries rather than import. This is evidenced by Malaysia's exports intensity with the GCC bloc which has exceeded 1 since 1994 except for 1999 due to the financial problems that hit the Asian region. Among the GCC countries, it is seen that, the UAE has been the preferred destination for Malaysian products with export intensity of around 1 and 2.3

between 1990 and 2008. It also suggests that the UAE has become a regional hub for Malaysian exports to in the Gulf region as well as to other Middle Eastern countries. Meanwhile export intensity between Malaysia and Qatar were around 1 in 2006 and 2007 but decreased to below 1 in 2008.

However, the import intensity index shows that Malaysia does not import heavily from GCC countries. Over the period of analysis, the import intensity between Malaysia and the GCC countries has been lower than 1. In fact, it was too hard to achieve more than 0.5. Moreover, the overall import intensity from the GCC countries was lower than 1 for the 18-year period, Malaysia's imports from the GCC countries demonstrated different trends.

It is observed that Malaysian businessmen are strongly active in promoting trade with Oman. Apart from high import intensity with Oman, other GCC countries have not been Malaysia's preferable sources of imports compared to the countries' exports to the rest of the world. By this, it means that, although the amount of imports from particular country is high, i.e: Malaysia's imports from Saudi Arabia, but, since Saudi exports more to the other countries than Malaysia import from it, it represent less preferences of imports.

Although, this intensity index does not explain other factors that could affect bilateral trade relation between two countries, in this case, it certainly depicts how preferable one country to trade (export/imports) with their counterparts in comparison to their trade share with the rest of the world.

Besides the analysis of intensity index from the Malaysia's perspectives, Tables 5.4 to 5.9 mirrored the trends from the GCC countries point of views. From the tables, there is no different from the trends that have been discussed as above.

Table 6-4: Trade Intensity Index between Malaysia and GCC Countries

Year	T_{ij} w.r.t: GCC	T_{ij} w.r.t: Bahrain	T_{ij} w.r.t: Kuwait	T_{ij} w.r.t: Oman	T_{ij} w.r.t: Qatar	T_{ij} w.r.t: KSA	T_{ij} w.r.t: UAE
1990	0.509	0.578	0.411	0.247	0.493	0.459	0.697
1991	0.501	0.362	0.229	0.309	0.181	0.432	0.808
1992	0.528	0.528	0.317	0.381	0.205	0.482	0.770
1993	0.529	0.459	0.190	0.314	0.373	0.524	0.753
1994	0.569	0.435	0.341	0.759	0.275	0.452	0.888
1995	0.579	0.679	0.453	0.311	0.206	0.429	0.992
1996	0.554	0.392	0.309	0.213	0.214	0.452	0.977
1997	0.530	0.574	0.225	0.254	0.260	0.444	0.892
1998	0.687	0.710	0.385	0.350	0.379	0.498	1.196
1999	0.707	1.024	0.488	0.731	0.268	0.520	1.093
2000	0.805	0.862	0.346	2.057	0.317	0.601	1.141
2001	0.852	0.899	0.405	2.293	0.370	0.695	1.032
2002	0.705	0.736	0.352	1.698	0.272	0.538	0.942
2003	0.834	0.741	0.376	2.528	0.217	0.600	1.138
2004	0.877	0.852	0.355	1.902	0.209	0.706	1.241
2005	0.921	0.940	0.621	1.861	0.341	0.745	1.210
2006	1.007	0.999	0.632	2.357	0.435	0.877	1.292
2007	0.967	0.904	0.852	1.337	0.441	0.754	1.489
2008	1.047	0.876	0.769	1.648	0.489	0.702	1.618
Average	0.722	0.713	0.424	1.134	0.313	0.574	1.061
variance	0.035	0.045	0.032	0.739	0.010	0.018	0.061

Source: Calculated from Direction of Trade Statistic (DOT), International Monetary Fund (IMF), November (2008), ESDS International, (Mimas) University of Manchester.

Table 6-5: Malaysia's Exports Intensity Indices with GCC countries

Year	$X_{\alpha ij}$ w.r.t: GCC	$X_{\alpha ij}$ w.r.t: Bahrain	$X_{\alpha ij}$ w.r.t: Kuwait	$X_{\alpha ij}$ w.r.t: Oman	$X_{\alpha ij}$ w.r.t: Qatar	$X_{\alpha ij}$ w.r.t: KSA	$X_{\alpha ij}$ w.r.t: UAE
1990	0.862	0.392	0.441	0.744	0.694	0.748	1.460
1991	0.934	0.335	0.387	0.769	0.338	0.695	1.885
1992	0.883	0.426	0.456	0.698	0.292	0.761	1.531
1993	0.898	0.328	0.434	0.575	0.352	0.794	1.469
1994	1.158	0.526	0.533	1.771	0.337	0.851	1.778
1995	1.219	0.483	0.605	0.621	0.388	0.833	2.286
1996	1.154	0.362	0.573	0.490	0.249	0.786	2.244
1997	1.091	0.416	0.568	0.544	0.423	0.740	2.047
1998	1.082	0.754	0.535	0.545	0.714	0.699	1.961
1999	0.985	0.531	0.638	0.541	0.375	0.736	1.403
2000	1.200	0.563	0.626	0.591	0.417	0.707	2.270
2001	1.230	0.531	0.591	1.210	0.569	0.790	2.036
2002	1.188	0.559	0.571	0.586	0.694	0.840	2.009
2003	1.244	0.504	0.580	0.590	0.594	0.817	2.137
2004	1.141	0.441	0.630	0.696	0.620	0.807	1.577
2005	1.011	0.446	0.605	0.638	0.697	0.606	1.432
2006	1.078	0.580	0.744	0.704	1.140	0.575	1.488
2007	1.148	0.599	0.619	0.768	1.041	0.634	1.601
2008	1.187	0.583	1.232	0.833	0.709	0.766	1.570
Average	1.089	0.493	0.598	0.732	0.560	0.747	1.799
variance	0.016	0.011	0.031	0.089	0.060	0.006	0.100

Source: Calculated from Direction of Trade Statistic (DOT), International Monetary Fund (IMF), November (2008), ESDS International, (Mimas) University of Manchester.

Table 6-6: Malaysia's imports intensity indices with GCC countries

Year	$M_{\alpha ij}$ w.r.t: GCC	$M_{\alpha ij}$ w.r.t: Bahrain	$M_{\alpha ij}$ w.r.t: Kuwait	$M_{\alpha ij}$ w.r.t: Oman	$M_{\alpha ij}$ w.r.t: Qatar	$M_{\alpha ij}$ w.r.t: KSA	$M_{\alpha ij}$ w.r.t: UAE
1990	0.364	0.510	0.362	0.010	0.397	0.379	0.382
1991	0.319	0.337	0.004	0.056	0.113	0.386	0.277
1992	0.306	0.611	0.065	0.149	0.157	0.382	0.219
1993	0.317	0.574	0.005	0.084	0.396	0.496	0.111
1994	0.246	0.215	0.227	0.057	0.250	0.364	0.071
1995	0.248	0.581	0.340	0.085	0.173	0.295	0.096
1996	0.250	0.261	0.182	0.012	0.164	0.362	0.112
1997	0.290	0.349	0.044	0.036	0.246	0.411	0.229
1998	0.433	0.278	0.255	0.007	0.138	0.546	0.517
1999	0.475	0.726	0.404	0.856	0.257	0.504	0.355
2000	0.689	0.531	0.257	2.745	0.303	0.653	0.568
2001	0.714	0.561	0.342	2.853	0.363	0.769	0.340
2002	0.490	0.366	0.239	2.089	0.121	0.482	0.288
2003	0.696	0.385	0.259	4.172	0.095	0.608	0.539
2004	0.696	0.500	0.229	2.775	0.094	0.761	0.588
2005	0.853	0.613	0.701	2.708	0.186	0.894	0.730
2006	1.006	0.643	0.608	3.864	0.288	1.083	0.743
2007	0.815	0.467	1.048	1.863	0.056	0.875	0.879
2008	0.972	0.473	0.693	2.558	0.432	0.769	1.374
Average	0.536	0.473	0.330	1.420	0.222	0.580	0.443
variance	0.067	0.021	0.072	2.216	0.013	0.050	0.107

Source: Calculated from Direction of Trade Statistic (DOT), International Monetary Fund (IMF), November (2008), ESDS International, (Mimas) University of Manchester.

Table 6-7: Bahrain's Bilateral Trade Intensity Indices with Malaysia

Year	Trade Intensity Index w.r.t Malaysia	Export Intensity Index w.r.t Malaysia	Import Intensity Index w.r.t Malaysia
1990	0.436	0.509	0.379
1991	0.337	0.321	0.356
1992	0.500	0.579	0.453
1993	0.405	0.535	0.356
1994	0.613	0.386	0.897
1995	0.667	0.675	0.763
1996	0.389	0.309	0.532
1997	0.345	0.324	0.455
1998	0.463	0.261	0.908
1999	0.566	0.683	0.569
2000	0.463	0.503	0.601
2001	0.461	0.534	0.563
2002	0.381	0.346	0.599
2003	0.350	0.364	0.539
2004	0.403	0.476	0.469
2005	0.460	0.583	0.474
2006	0.456	0.609	0.515
2007	0.370	0.443	0.506
2008	0.529	0.447	0.623
Average	0.452	0.468	0.556
variance	0.008	0.016	0.025

Source: Calculated from Direction of Trade Statistic (DOT), International Monetary Fund (IMF), November (2008), ESDS International, (Mimas) University of Manchester.

Table 6-8: Kuwait's Bilateral Trade Intensity Indices with Malaysia

Year	Trade Intensity Index w.r.t Malaysia	Export Intensity Index w.r.t Malaysia	Import Intensity Index w.r.t Malaysia
1990	0.381	0.344	0.482
1991	0.526	0.004	0.672
1992	0.563	0.062	0.846
1993	0.206	0.005	0.470
1994	0.445	0.212	0.846
1995	0.313	0.009	0.900
1996	0.398	0.170	0.837
1997	0.335	0.041	0.948
1998	0.516	0.240	0.875
1999	0.549	0.381	0.903
2000	0.326	0.244	0.667
2001	0.373	0.326	0.626
2002	0.334	0.226	0.610
2003	0.340	0.245	0.619
2004	0.337	0.219	0.667
2005	0.556	0.666	0.641
2006	0.479	0.576	0.789
2007	0.666	0.991	0.678
2008	0.877	0.655	1.302
Average	0.448	0.296	0.757
variance	0.024	0.070	0.037

Source: Calculated from Direction of Trade Statistic (DOT), International Monetary Fund (IMF), November (2008), ESDS International, (Mimas) University of Manchester.

Table 6-9: Oman's Bilateral Trade Intensity Indices with Malaysia

Year	Trade Intensity Index w.r.t Malaysia	Export Intensity Index w.r.t Malaysia	Import Intensity Index w.r.t Malaysia
1990	0.412	0.019	1.065
1991	0.432	0.053	1.050
1992	0.346	0.013	0.799
1993	0.311	0.008	0.711
1994	0.558	0.056	1.340
1995	0.341	0.026	0.860
1996	0.361	0.017	0.956
1997	0.419	0.021	1.106
1998	0.445	0.006	0.835
1999	1.407	2.178	0.847
2000	1.448	2.184	0.833
2001	1.598	2.479	0.972
2002	1.349	2.019	0.830
2003	1.755	3.109	0.927
2004	1.548	2.590	0.737
2005	1.505	2.531	0.676
2006	1.758	3.366	0.712
2007	0.979	1.692	0.769
2008	1.642	2.159	0.816
Average	0.980	1.291	0.886
variance	0.345	1.651	0.027

Source: Calculated from Direction of Trade Statistic (DOT), International Monetary Fund (IMF), November (2008), ESDS International, (Mimas) University of Manchester.

Table 6-10: Qatar's Bilateral Trade Intensity Indices with Malaysia

Year	Trade Intensity Index w.r.t Malaysia	Export Intensity Index w.r.t Malaysia	Import Intensity Index w.r.t Malaysia
1990	0.587	0.377	1.015
1991	0.269	0.107	0.593
1992	0.309	0.150	0.576
1993	0.476	0.370	0.712
1994	0.362	0.233	0.635
1995	0.383	0.161	0.901
1996	0.282	0.153	0.489
1997	0.332	0.229	0.619
1998	0.392	0.130	0.780
1999	0.375	0.243	0.778
2000	0.296	0.188	0.823
2001	0.429	0.330	0.935
2002	0.286	0.033	1.004
2003	0.242	0.032	0.864
2004	0.156	0.070	0.466
2005	0.310	0.178	0.737
2006	0.505	0.204	1.381
2007	0.377	0.053	1.100
2008	0.560	0.408	0.755
Average	0.365	0.192	0.798
variance	0.012	0.013	0.051

Source: Calculated from Direction of Trade Statistic (DOT), International Monetary Fund (IMF), November (2008), ESDS International, (Mimas) University of Manchester.

Table 6-11: Saudi Arabia's Bilateral Trade Intensity Indices with Malaysia

Year	Trade Intensity Index w.r.t Malaysia	Export Intensity Index w.r.t Malaysia	Import Intensity Index w.r.t Malaysia
1990	0.348	0.215	0.605
1991	0.335	0.162	0.642
1992	0.363	0.191	0.605
1993	0.352	0.253	0.534
1994	0.307	0.178	0.598
1995	0.350	0.210	0.686
1996	0.357	0.289	0.584
1997	0.315	0.278	0.490
1998	0.393	0.344	0.530
1999	0.459	0.475	0.565
2000	0.536	0.620	0.647
2001	0.602	0.734	0.674
2002	0.453	0.456	0.635
2003	0.505	0.575	0.715
2004	0.610	0.726	0.713
2005	0.662	0.855	0.666
2006	0.663	1.033	0.605
2007	0.581	0.832	0.667
2008	0.777	0.730	0.806
Average	0.472	0.482	0.630
variance	0.020	0.075	0.006

Source: Calculated from Direction of Trade Statistic (DOT), International Monetary Fund (IMF), November (2008), ESDS International, (Mimas) University of Manchester.

Table 6-12: UAE's Bilateral Trade Intensity Indices with Malaysia 1990-2007

Year	Trade Intensity Index w.r.t Malaysia	Export Intensity Index w.r.t Malaysia	Import Intensity Index w.r.t Malaysia
1990	0.867	0.363	1.841
1991	0.831	0.263	1.867
1992	0.860	0.208	1.656
1993	0.815	0.104	1.621
1994	0.647	0.066	1.332
1995	0.565	0.089	1.231
1996	0.551	0.105	1.179
1997	0.512	0.213	1.034
1998	0.690	0.484	0.981
1999	1.000	0.334	1.491
2000	0.615	0.538	0.928
2001	0.475	0.324	0.788
2002	0.498	0.272	0.874
2003	0.760	0.509	1.300
2004	1.076	0.557	1.658
2005	1.039	0.692	1.508
2006	0.937	0.701	1.573
2007	1.045	0.830	1.693
2008	1.672	1.293	1.669
Average	0.813	0.418	1.380
variance	0.083	0.095	0.115

Source: Calculated from Direction of Trade Statistic (DOT), International Monetary Fund (IMF), November (2008), ESDS International, (Mimas) University of Manchester.

6.4 COMMODITY COMPOSITION OF TRADE BETWEEN MALAYSIA AND GCC COUNTRIES

This section continues with an empirical analysis of merchandise trade relations between Malaysia and the GCC countries by using available bilateral data at the disaggregated, namely industrial level. This provides a better picture of Malaysia's exports and imports composition between 1998 and 2007 (due data availability and to maintain consistency, this study has set this period limit). Data from UN COMTRADE provided by World Integrated Trade Solution (WITS) were obtained for the purpose of this study. In this regards, Standard International Trade Classification (SITC) data for the purpose of this analysis, particularly for the RCA index analysis, was used. The RCA index analysis is carried out in section 6.5.

Prior to analysing Malaysia's revealed comparative advantage with respect to the GCC countries, a brief discussion on Malaysia's exports composition to the GCC countries is necessary. Table 6-13 shows the major exports to the GCC countries in selected years. It reveals that, in 2007, jewellery products were the largest item to the GCC countries. It accounted for 22.8 percent of total exports to the GCC in 2007. It has replaced electrical and electronic products as the most important export commodity to the GCC. Whereas electrical and electronic products accounted for 25.8 percent of the total exports to the GCC in 1998, that decreased to a mere 22 percent in 2007. Nevertheless, in terms of value, both electrical and electronic and jewellery exports have been increasing dramatically and almost reached US$ 1 billion in 2007.

Table 6-13: Malaysia Exports to the GCC: Major Products. (US$ million)

Year / Products	1998		2001		2004		2007	
	Value	Share	Value	Share	Value	Share	Value	Share
Food Beverages and Oils	74.42	6.8%	63.19	4.5%	131.33	5.7%	256.03	5.9%
Palm Oil and its Fraction	196.43	17.9%	106.49	7.7%	250.41	10.9%	337.02	7.8%
Crude Material and Fuel	36.98	3.4%	57.54	4.1%	42.82	1.9%	127.73	2.9%
Chemicals	27.58	2.5%	39.45	2.8%	79.32	3.4%	153.21	3.5%
Manufactured Goods	100.54	9.1%	210.15	15.1%	241.99	10.5%	661.28	15.2%
Machinery	69.28	6.3%	61.16	4.4%	154.00	6.7%	420.18	9.7%
Electrical & Electronic	332.63	30.2%	423.16	30.4%	616.51	26.8%	953.11	22.0%
Misc. Consumer Products	29.89	2.7%	36.55	2.6%	66.71	2.9%	158.71	3.7%
Furniture	67.75	6.2%	91.09	6.5%	149.72	6.5%	173.66	4.0%
Jewellery	153.64	14.0%	282.08	20.3%	510.81	22.2%	987.36	22.8%

Source: UN COMTRADE, obtained from World Integrated Trade Solution (WITS)

Explanation of products:

"Food, Beverages and Oils": SITC 0 ("Food and live animals") + SITC 1 ("Beverages and tobacco") + SITC 4 ("Animal and vegetable oils, fats and waxes) – SITC 4222 (Palm oil and its fraction)

"Palm Oil and its Fraction": SITC 4222 (Palm oil and its fraction)

"Crude Material and Fuel": SITC 2 ("Crude materials, inedible, except fuels") + SITC 3 (Mineral fuels, lubricants, and related materials)

"Chemicals": SITC 5 (Chemicals and related products, n.e.s.)

"Manufactured Goods": SITC 6 (Manufactured goods classified chiefly by material)

"Machinery": SITC 7 (Machinery and transport equipment) – SITC 75 (Office machines and automatic data-processing machines) – SITC 76 (Telecommunications and sound-recording) – SITC 77 (Electrical machinery, apparatus and appliances)

"Electric & Electronic": SITC 75 (Office machines and automatic data-processing machines) + SITC 76 (Telecommunications and sound-recording) + SITC 77 (Electrical machinery, apparatus and appliances)

"Misc Consumer Products": SITC 8 (Miscellaneous manufactured articles) – SITC 821 (Furniture and parts thereof) – SITC 897 (Jewellery)

"Furniture": SITC 821 (Furniture and parts thereof)

"Jewellery": SITC 897 (Jewellery)

Although palm oil was the second largest export product to the GCC in 1998, its percentage share of Malaysia's exports to the GCC decreased in 2007 to only 7.8 percent. It has also been discovered that the share of manufactured exports to the GCC countries has almost doubled from 9.1 percent in 1998 to 15.2 percent in 2007. From this can be seen that the strongest exports are jewellery, electronic and electrical products, manufactured goods and machinery.

In terms of exports to individual GCC countries, the trends vary. This can be seen in Table 6-14 . The following observations can be made:

Firstly, the composition of Malaysia's exports to the GCC member countries is plain to see. Table 6-14 shows that the proportion of palm oil exports to individual GCC countries have dramatically changed. Apart from Kuwait and Oman, share export of palm oil products as Malaysia's total exports to the other the GCC countries have significantly decreased. The share of palm oil exports to Bahrain, for example, has decreased to merely 1 percent in 2007 from 48 percent in 1998 and exports of palm oil to Saudi decreased to 2.7 percent in 2007 from 30.5 percent in 1998.

As previously discussed on Malaysia's trade composition in Chapter 4, Malaysia is a major world producer of palm oil and palm oil is one of its top five exports to the world. It is interesting to note here that, the demand for this product exhibit positive trend (see Table 6-14), where; the volume of exports has been increasing. Nevertheless, the share of palm oil exports to the GCC has decreased to 7.8 percent in 2007 due to the increase of proportion of other products that being exported to the GCC countries.

Secondly, exports of manufactured goods to individual GCC countries are showing interesting development. Exports to individual GCC countries have increased between 5 and 9 percent except for Qatar, where share of export of Malaysia's total exports for manufactured goods to the country has decreased dramatically from 46.17 percent in 1998 to 17 percent in 2007.

Table 6-14: Composition of Malaysia's Exports to Individual GCC Countries (% share)

	UAE	BHR	KWT	OMN	QAT	SAU
1998						
Food Beverages and Oils	6.3%	6.5%	7.4%	10.4%	1.9%	7.8%
Palm Oil and its Fraction	11.5%	48.4%	4.2%	40.7%	0.1%	30.5%
Crude Material and Fuel	3.1%	7.4%	4.0%	0.3%	3.6%	3.8%
Chemicals	2.5%	0.7%	1.1%	0.9%	0.4%	3.4%
Manufactured Goods	5.3%	16.5%	14.4%	9.1%	46.1%	11.6%
Machinery	6.0%	1.6%	11.3%	12.6%	11.7%	4.9%
Electrical & Electronic	39.6%	7.0%	21.5%	13.6%	27.1%	16.5%
Misc. Consumer Products	2.3%	1.9%	3.2%	4.4%	0.7%	3.7%
Furniture	4.5%	6.8%	16.5%	7.0%	7.9%	7.2%
Jewellery	18.6%	0.0%	15.9%	0.5%	0.0%	8.3%
2007						
Food Beverages and Oils	3.3%	13.6%	28.0%	10.0%	2.3%	11.6%
Palm Oil and its Fraction	8.4%	1.1%	4.3%	42.0%	0.0%	2.7%
Crude Material and Fuel	3.1%	6.2%	4.6%	0.8%	1.6%	2.4%
Chemicals	3.0%	2.4%	2.0%	2.3%	0.7%	7.7%
Manufactured Goods	11.2%	24.5%	19.5%	17.6%	17.3%	28.7%
Machinery	6.6%	18.8%	14.3%	13.6%	15.4%	17.6%
Electric & Electronic	23.2%	15.7%	11.5%	6.7%	34.8%	17.8%
Misc. Consumer Products	2.3%	4.0%	3.7%	1.6%	17.5%	3.8%
Furniture	3.4%	8.0%	7.8%	4.0%	4.6%	4.9%
Jewellery	33.5%	0.0%	0.5%	0.0%	0.0%	0.0%

Source: UN COMTRADE, obtained from World Integrated Trade Solution (WITS)

Thirdly, interestingly, exports of jewellery products which were the largest Malaysian exports to the GCC countries have been directed towards the United Arab Emirates. They accounted for 18.6 percent in 1998 and 33.5 percent of Malaysia's total exports to the UAE.

The preceding analysis focuses on Malaysia's composition of exports to the GCC countries. It is also worth here to observe on Malaysia's imports composition with the GCC countries. Table 6-15 shows Malaysia's imports from the GCC countries between 1998 and 2007 based on the leading product groups. It should be noted that the data on Malaysia's imports composition was obtained from the UN COMTRADE provided by World Integrated Trade Solution (WITS).

Table 6-15: Composition of Malaysia's Imports from the GCC: Major Products. (Value in US$ million)

Year / Goods	1998		2001		2004		2007	
	Value	Share	Value	Share	Value	Share	Value	Share
Food, Beverage and Oils	1.3	0.3%	5.4	0.4%	9.6	0.5%	13.1	0.3%
Crude Material (Except Petroleum)	13.0	3.0%	28.5	2.1%	70.6	3.5%	143.4	3.2%
Fuel/Petroleum	245.3	56.8%	1028.9	77.4%	1625.4	79.6%	3648.5	81.5%
Chemicals	98.4	22.8%	129.0	9.7%	143.0	7.0%	354.9	7.9%
Manufactured Good	5.7	1.3%	9.6	0.7%	23.8	1.2%	21.3	0.5%
Aluminium	33.4	7.7%	64.7	4.9%	81.9	4.0%	157.3	3.5%
Machinery/Transport Equipment	4.1	0.9%	20.3	1.5%	9.4	0.5%	35.1	0.8%
Miscellaneous Consumer Goods	3.6	0.8%	6.8	0.5%	5.6	0.3%	12.3	0.3%
Gold, Non-Monetary	27.2	6.3%	36.0	2.7%	71.9	3.5%	91.8	2.0%

Source: UN COMTRADE, obtained from World Integrated Trade Solution (WITS)
Explanation of products:

"Food, Beverages and Oils":	SITC 0 ("Food and live animals") + SITC 1 ("Beverages and Tobacco") + SITC 4 ("Animal and vegetable oils, fats and waxes)
"Crude Materials":	SITC 2 ("Crude materials, inedible, except fuels") + SITC 3 (Mineral fuels, lubricants, and related materials) – SITC 333 (Petroleum oils and oils) – SITC 334 (Petroleum oils and oils other than crude)
"Fuel/Petroleum":	SITC 333 (Petroleum oils and oils) – SITC 334 (Petroleum oils and oils other than crude)
"Chemicals":	SITC 5 (Chemicals and related product)
"Manufactured Good":	SITC 6 (Manufactured goods classified chiefly by material) – SITC 684 (Aluminium)
"Aluminium":	SITC 684 (Aluminium)
"Machinery":	SITC 7 (Machinery and transport equipment)
"Misc. Consumer Goods":	SITC 8 (Miscellaneous manufactured articles)
"Gold, Non-Monetary":	SITC 97 Gold, non-monetary (excluding gold ores and concentrates)

Without any doubt, the largest Malaysian imports from the Arab Gulf countries are in the form of crude and non-crude oil. Considering the increasing oil prices, these product groups have constituted the major import from the GCC since 1998. They accounted 56.8 percent in 1998 and kept increasing by up to 81.5 percent of Malaysia's total imports from this market in 2007. Despite this trend, surprisingly, for the past ten years, Malaysia's imports of crude and non-crude oil petroleum were supplied from Singapore[34] (see Appendix 7). While, the Arab Gulf countries contribute around one-third of Malaysia's oil import, which was the second largest source of this product from Malaysia.

The second largest imports are chemical-based products (SITC 5). These products contribute 22.8 percent of Malaysia's imports from the GCC. Nevertheless, the percentage share decreased to 7.9 percent in 2007. Other products that have been identified as major imports into Malaysia from the GCC are aluminium and gold which constituted 3.5 percent and 2.0 percent respectively in 2007.

In terms of imports from the individual GCC countries, the trends show similarity. Table 6-16 allows the following observations to be made:

One, as discussed above, petroleum products constitutes Malaysia's largest imports from the GCC. In 2007, these products came from most of the GCC countries except for Bahrain and Qatar which are not major oil producers in the Gulf. It is also worth noting here that almost 100 percent of Malaysia's imports from Kuwait consist of crude and non-crude oil products.

Secondly, Malaysia's main imports from Bahrain are aluminum products of which Malaysia has been importing more than 50 percent out of this country's total exports to Malaysia. On the other hand, Malaysia's imports from Qatar largely constitute chemical products.

[34] Although Singapore is not an oil producer and even does not have any single oil reserve, being a centre for oil refinery product in the Asian region, it manages to re-export petroleum products to East Asian countries including Malaysia (Parrehas, 1998).

Table 6-16: Composition Malaysia's Imports from Individual GCC Countries (% Share of Individual Countries Imports): Major Products

Row Labels	UAE	BHR	KWT	OMN	QAT	SAU
1998						
Food, Beverage and Oils	0.5%	0.0%	0.0%	32.3%	0.0%	0.2%
Crude Material (Except Petroleum)	1.3%	28.4%	1.8%	11.7%	0.0%	2.1%
Fuel/Petroleum	65.4%	0.0%	0.0%	0.0%	0.0%	65.1%
Chemicals	2.0%	0.0%	93.7%	14.1%	89.4%	27.3%
Manufactured Good	1.8%	2.1%	0.1%	28.6%	0.0%	1.1%
Aluminium	8.9%	67.6%	0.0%	0.0%	9.3%	2.6%
Machinery/Transport Equipment	17.3%	0.2%	4.4%	5.2%	0.1%	0.3%
Miscellaneous Consumer Goods	1.0%	0.1%	0.0%	3.5%	1.1%	1.1%
Gold, Non-Monetary	1.8%	1.5%	0.0%	4.5%	0.0%	0.3%
2007						
Food, Beverage and Oils	0.8%	0.4%	0.0%	0.2%	0.0%	0.1%
Crude Material (Except Petroleum)	4.0%	29.1%	0.8%	0.0%	2.2%	2.6%
Fuel/Petroleum	74.8%	8.7%	87.8%	95.6%	0.0%	86.0%
Chemicals	3.1%	4.9%	10.6%	3.8%	86.0%	10.5%
Manufactured Good	0.9%	0.1%	0.0%	0.4%	5.7%	0.3%
Aluminium	6.8%	56.4%	0.0%	0.0%	0.0%	0.0%
Machinery/Transport Equipment	6.9%	0.2%	0.0%	0.0%	1.6%	0.1%
Miscellaneous Consumer Goods	1.9%	0.2%	0.7%	0.0%	2.4%	0.3%
Gold, Non-Monetary	0.8%	0.0%	0.0%	0.0%	2.0%	0.0%

Thirdly, since almost all of the GCC member countries are major world oil producers, Malaysia's imports from this economic group have not diversified much, except for those from the United Arab Emirates and Bahrain. In terms of products, Malaysia's import structure from these two countries has been varied. However, it is agreed that the UAE is the re-exporter hub in the region and in a process of reforming and diversifying its own economic structure. In this way it can contribute to the diversification of its export products to Malaysia.

Overall, it can be said that Malaysia's imports from the GCC countries is very concentrated on petroleum products, since these countries one of the major source of Malaysia's oil imports. It also clear that the composition of Malaysia's exports to this market has been diversifying and is led by Malaysia's major export products to the world (electrical and electronic products and palm oil).

In this section, an analysis of Malaysia's imports and exports to the world as well as to the GCC countries has been extensively discussed. However, the evidence is hardly satisfactory, as it says little about whether the pattern emerging is peculiar to trade with the GCC countries or a more general one reflecting of Malaysia's external economic relations. Therefore, a further examination of the concept of revealed comparative advantage (RCA) as developed by Balassa (1965) is certainly helpful and will be discussed in the next section.

6.5 MARKET ACCESS OPPORTUNITIES FOR MALAYSIAN TRADERS AND MANUFACTURERS IN THE GCC MARKET

Previous analysis has discovered Malaysia's exports composition to the GCC countries. Nevertheless, it says little about Malaysia's strong export and commodity sectors. In the light of an increasingly competitive international environment, it is useful to examine where Malaysia's comparative advantage lies with respect to the GCC market. The concept of comparative advantage is

grounded in conventional trade theory. Originally, it was founded by Ricardo in his Theory of Comparative Advantage (as discussed in Chapter 2), which describes the tendency for countries to export certain commodities/products which they can produce relatively cheaply and are adept at producing, vis-à-vis the rest of the world.

Therefore, in this section an analysis of the comparative advantage index for Malaysia and the GCC member countries is discussed. Several techniques are used to measure the weak and strong sectors of a country. One of the most widely used and accepted method involves the concept of 'revealed comparative advantage' or RCA introduced by Balassa (1965) [35], according to whom:

> *"The export performance of individual industries in a particular country can be evaluated by comparing the relative shares of a country in the world exports of individual commodities."*

In this analysis, besides revealing the product that in which Malaysia has comparative advantage over the GCC, an analysis of Malaysia's RCA with respect to the GCC will also identify niche products for exporting to this market. By analysing the RCA index, this research expects to reveal Malaysia's strong export sectors / products in terms of their competitiveness with certain products in the world market or in a particular market. This procedure is known as establishing Malaysia's RCA over its trading partners. This approach needs to be conducted with post-trade data. Although there are debatable issues regarding the advantages and disadvantage of the Balassa's index in measuring country's strong products, it still stands as the most widely used

[35] It is also known as Balassa's Index. The index compares to what extent an exporting country's specification in its overall trade of industry s goods is similar in its trade with a particular importing country. For instance, if machinery makes up 25 percent of *i's* trade with *j* (the numerator in the formula above), but only 10 percent in its overall trade (the denominator), then goods *s* enjoys certain comparative advantage in *i's* exports to j. The bilateral RCA's value in this case is 2.5 (namely 20% / 10 %) and emphasis this very fact.

revealed comparative index (see Hillman, 1980, Vollrath, 1991, Marrewijk, 2002).

6.5.1 **Revealed comparative index specification**

Prior to the formulation of this index by Balassa, Liesner (1958) had already contributed to the empirical literature of an RCA index (taken from Marrewijk, 2002: 36). Originally, Liesner's proposal for this simple measure of RCA was the following:

$\text{RCA} = X_{ij}/X_{nj}$

Where X represents exports, i is a country, j is a commodity (or industry), and n is a set of countries (e.g. the GCC).

Balassa (1965) later presented a comprehensive and advanced measure of his RCA index. This index, then, is widely accepted for measuring RCA in the literature. The index can be written as:

$$RCA_{\text{j}} = \frac{(X_{ij}/X_{it})}{(X_{nj}/X_{nt})} = \frac{(X_{ij}/X_{nj})}{(X_{it}/X_{nt})} \qquad (6.4)$$

Where: RCA_j = reveals the comparative advantage index of commodity j

X = exports,
i = country,
j = commodity (or industry)
t = time t and
n is a set of countries[36].

Literally, RCA measures a country's exports of a commodity j (or industry j) to corresponding exports of a set of countries, e.g. the GCC. The index compares to what extent an exporting country's specialisation in its overall trade of commodity / industry j is similar in its trade with a particular importing country (Pascha, 2002). The above index of revealed comparative advantage (RCA) has a relatively simple interpretation. The critical level of the indicator is 1. This means that the product neither has advantage nor disadvantage. A comparative advantage is revealed, if RCA>1 (higher than 1). If

[36] Note that, n might be represented world (w).

it is less than unity, it reveals a comparative disadvantage or the country is said to have a comparative disadvantage in the particular commodity/industry.

The RCA index (equation 1) defined above is calculated for Malaysia's trade with respect to the GCC at the global level. By using a similar specification, this study also investigates Malaysia's product competitiveness in the GCC member countries by taking global exports to the GCC as a comparator. This can be done by using the following formula:

$$RCA_{ijG} = \frac{(X_{ijG}/X_{\mathrm{iG}})}{(X_{\mathrm{wj}}/X_{\mathrm{wG}})} = \frac{(X_{ijG}/X_{\mathrm{wj}})}{(X_{\mathrm{iG}}/X_{\mathrm{wG}})} \qquad (6.5)$$

Where: X_{ijG} = Malaysia's exports of commodity j to GCC
X_{iG} = All exports from Malaysia to GCC
X_{wj} = World's exports of commodity j to GCC
X_{wG} = World's total exports to GCC

With respect to export competitiveness and the use of revealed comparative advantage, numerous similar empirical studies have been done (see for example Fertő and Hubbard, 2002, Pascha, 2002, Bahri, 2003, Utkulu and Seymen, 2004, Tongzon, 2005). There are also studies which have measured Malaysian product competitiveness by using Balassa's Index (Mahmood., 1999, Abidin and Wai Heng, 2008, Muhammad and Yaacob, 2008).

It is important to note that the RCA calculations are based on observed trade data. Thus, any government distortion, intervention, or changes in policy such as tariffs, quotas or subsidies were not taken into account to these calculations (Fertő and Hubbard, 2002). Nevertheless, the distortions are at reasonably minimal levels as during the period of analysis there was no important policy changes on Malaysia's trade with the GCC countries, except the implementation of GCC custom union in 2003.

Broad trends emerge from this analysis; the following discussions present the main points and outcomes on the RCA calculations.

6.5.2 **Competitiveness of Malaysian products: Evidence from RCA index**

In analysing the indices discussed above, this research used Standard International Trade Classification (SITC) data at the 3-digit level. The data were obtained from UN COMTRADE provided by World Integrated Trade Solution (WITS). The data are also compared to the data taken from the Malaysian Ministry of Trade and Investment (MITI). Since the data from MITI are given in local currency, data from UNCOMTRADE are selected and analysed purposely for this study to ensure data consistency.

Before analysing Malaysian export competitiveness towards the GCC countries at the SITC 3-digit level, we shall examine Malaysia's comparative advantage at the global and Malaysia-GCC bilateral level. By using industrial classification as presented in section 6.4, Table 6-17 and Table 6-18 depicts the results. These tables show that for last ten years, Malaysia's exports comparative advantages with respect to the GCC countries have been identical with its comparative advantage at the global level. Four major products and industries have been identified as having value above unity throughout the ten-year period. These products include palm oil, electronic and electrical, furniture and jewellery.

It certainly shows that palm oil products remain the strongest sector in Malaysian exports in both the global and the GCC market in the last 10 years. Moreover, although Malaysia's major exports to the world comprise electronic and electrical products, its RCA for these products in the GCC countries is just above unity. This implies that there are other major sources for importing these products into the GCC countries: Singapore, Japan and the USA, especially, are very competitive in these product.

Table 6-17 : Malaysia RCA at the Global Level*

Year / Products/industry	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*
Food Beverages and Oils	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.7
Palm Oil and its Fraction	**46.9**	**40.0**	**34.3**	**37.0**	**35.2**	**37.9**	**33.4**	**31.3**	**31.6**	**31.9**
Crude Material and Fuel	**1.0**	1.0	0.9	0.9	0.9	1.0	**1.0**	1.0	1.0	**1.0**
Chemicals	0.3	0.3	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.6
Manufactured Goods	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6
Machinery	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Electrical & Electronics	**2.9**	**3.0**	**2.9**	**3.1**	**3.1**	**3.1**	**2.9**	**2.9**	**2.9**	**2.8**
Misc. Consumer Products	0.6	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.7
Furniture	**1.5**	**1.6**	**1.6**	**1.5**	**1.5**	**1.5**	**1.5**	**1.5**	**1.5**	**1.5**
Jewellery	**1.4**	**1.5**	**1.9**	**1.6**	**1.2**	**1.5**	**2.0**	**2.3**	**1.8**	**2.2**

Source: UN COMTRADE database, obtained from World Integrated Trade Solution (WITS).
Calculated by using RCA_j index (equation 1)
*share of Malaysia export of commodity j relative to its total trade to the World/ share of world exports for commodity j relative to its total trade

Table 6-18: Malaysian Export Competitiveness in the GCC Countries*

Year / Products/industry	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*
Food Beverages and Oils	0.7	0.5	0.4	0.4	0.5	0.6	0.6	0.6	0.8	0.7
Palm Oil and its Fraction	**64.8**	**47.7**	**45.1**	**50.7**	**59.3**	**58.5**	**48.9**	**50.3**	**41.7**	**39.1**
Crude Material and Fuel	**1.5**	**1.2**	0.9	**1.3**	0.8	0.4	0.6	0.5	0.6	0.4
Chemicals	0.4	0.4	0.5	0.4	0.5	0.5	0.5	0.4	0.5	0.6
Manufactured Goods	0.5	0.6	0.6	0.8	0.6	0.6	0.5	0.7	0.7	0.8
Machinery	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3
Electrical & Electronic	**2.8**	**2.7**	**2.5**	**2.4**	**2.3**	**2.2**	**1.8**	**1.5**	**1.8**	**1.8**
Misc Consumer Products	0.3	0.2	0.3	0.3	0.2	0.3	0.3	0.3	0.4	0.5
Furniture	**5.8**	**5.7**	**6.1**	**5.9**	**7.1**	**8.4**	**6.5**	**5.8**	**5.7**	**4.3**
Jewellery	**8.5**	**9.5**	**10.6**	**10.5**	**7.4**	**7.3**	**7.4**	**9.4**	**8.5**	**8.7**

Source: UN COMTRADE database, obtained from World Integrated Trade Solution (WITS).
Calculated by using RCA_{ijG} index (equation 2)
*Share of Malaysia export of commodity *j* to GCC relative to its total trade to GCC / share of World exports of commodity *j* to the GCC relative to its total trade to the GCC

In order to identify more precisely products and goods in which Malaysia has comparative advantage in the GCC market, analysis at a more disaggregated level of data, a SITC 3-digit level, was carried out and is presented in Table 6-19 to Table 6-21.

Table 6-19 shows Malaysian products at a SITC 3-digit level with an RCA greater than unity throughout the 10-year period from 1998–2007. There are in total 23 products out of 233 products in which Malaysia has consistently enjoyed a competitive advantage in the GCC market as compared to the rest of the world exports to the GCC. Besides palm oil (SITC 422), jewellery (SITC 897) and furniture products (SITC 821) are high on RCA index as previously discussed. Table 6-19 also reveals that Malaysia is highly competitive in the following products in the Gulf: cocoa (SITC 072), margarine/shortening (SITC 091), natural rubber/latex/etc (SITC 231), animal/vegetable oils processed (SITC 431), lead (SITC 685), tin (SITC 687), television receivers (SITC 761), radio broadcast receiver (SITC 762) and sound/television recorders etc (SITC 763).

Almost of all the product groups in the table recorded either a declining trend in their RCA index or increased minimally, except for cocoa (SITC 072) and veneer/plywood/etc (SITC 634). Among the products that experienced a declining competitiveness in the GCC market, tin (SITC 687) product group recorded the sharpest decline from a peak of 43.6 in 1998 to 4.6 in 2007. Other product groups that experienced a significant decline in their RCA index in this market are natural rubber/latex/etc (SITC 231) and cereal meal/flour n.e.s (SITC 047). Their RCA indexes were 24.4 and 11.0 in 1998 but fell to 5.1 and 2.9 in 2007 respectively. The pattern suggests that Malaysia's competitiveness in these products has gradually diminished in the GCC market.

Table 6-19: Malaysian Products That Have Consistent Competitiveness in the GCC Countries (1998 – 2007)

Code	*Product name*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*
047	Cereal meal/ flour n.e.s	11.0	10.6	12.6	9.2	9.3	7.0	2.3	4.9	6.2	2.9
048	Cereal etc flour/ starch	2.4	2.7	3.0	2.6	3.0	2.4	2.4	2.8	2.7	2.2
072	Cocoa	8.0	7.6	10.0	8.0	14.4	12.7	10.2	9.6	9.0	12.1
091	Margarine/ shortening	42.8	29.2	26.2	23.1	22.7	26.3	24.1	31.3	47.1	35.9
231	Natural rubber/ latex/ etc	24.4	33.0	24.3	17.7	12.5	16.5	21.1	12.3	13.1	5.1
248	Wood simply worked	9.7	7.4	7.6	6.2	6.0	5.6	5.5	7.0	8.1	5.0
422	Fixed veg oils not soft	63.3	46.1	42.4	47.2	56.5	52.9	46.9	45.0	37.7	38.2
431	Animal/veg oils processed	24.7	21.1	15.8	16.8	26.1	26.5	24.3	29.6	27.4	19.1
554	Soaps/cleansers/ polishes	2.8	3.8	4.6	2.6	4.2	3.7	4.9	2.8	4.3	3.5
572	Styrene primary polymers	3.8	4.1	3.5	3.1	3.1	4.5	3.8	3.2	2.8	2.8
621	Materials of rubber	2.3	2.9	2.2	1.7	2.0	3.1	2.6	3.4	2.8	2.9
634	Veneer/plywood/ etc	6.1	6.2	8.8	10.5	9.9	10.6	10.3	12.6	10.8	11.1
682	Copper	1.3	1.8	1.6	1.7	1.2	1.5	1.2	1.5	1.4	2.5
685	Lead	6.6	5.7	3.0	2.0	2.3	7.5	25.1	17.5	15.0	9.4
687	Tin	43.6	6.7	8.3	11.4	8.6	7.5	19.4	37.6	3.5	4.6
741	Industrial heat/cool equipment	1.5	1.4	1.7	1.4	1.2	1.4	1.7	2.3	2.0	1.6
752	Computer equipment	4.1	3.5	3.2	3.3	2.3	2.4	2.3	2.8	2.2	1.8
761	Television receivers	15.5	13.3	10.8	10.0	11.8	11.4	10.0	9.6	10.3	13.6
762	Radio broadcast receiver	15.3	21.1	15.1	9.3	9.1	16.2	13.3	13.8	14.9	9.8
763	Sound/tv recorders etc	9.4	8.3	7.4	8.2	6.7	3.8	2.9	3.5	2.7	2.0
821	Furniture/ stuff furnishing	5.8	5.7	6.1	5.9	7.1	8.4	6.5	5.8	5.7	4.3
848	Headgear/ non-text clothing	3.4	4.3	4.2	2.2	2.2	1.9	2.0	2.0	2.6	2.5
897	Jewellery	8.5	9.5	10.6	10.5	7.4	7.3	7.4	9.4	8.5	8.7

Source: UN COMTRADE database, obtained from World Integrated Trade Solution (WITS).
Calculated by using RCA_{ijG} index (equation 2)
*Share of Malaysia export of commodity *j* to GCC relative to its total trade to GCC / share of World exports of commodity *j* to the GCC relative to its total trade to the GCC

It is also important to note here that, the declining trend in Malaysia's competitiveness in electrical and electronic products in the GCC market is reflected by Malaysia's decreasing comparative advantage in producing these products at the global level (see Abidin and Wai Heng, 2008, Muhammad and Yaacob, 2008). Throughout the 10-year period, the most competitive Malaysian products in the GCC countries have been much concentrated on natural products such as tin, cocoa, wood, jewellery, copper and lead, half of which are non-renewable products.

It is also interesting to analyse Malaysian products that gained and lost their competitiveness in the GCC countries between 1998 and 2007. This will further help in identifying niche exports products from Malaysia to the Gulf. Table 6-20 and Table 6-21 illustrate the trends. Interestingly, the wood chips/waste (SITC 246) group had a high index in 2007 though it had been uncompetitive in the GCC market for the 1998–2002 period. These products group mainly comes from wood chips (SITC 24615) and wood waste/sawdust (SITC 2462).

Apart from this group of products, others that gained considerable competitiveness in the GCC market include iron/steel/wire (SITC 678), hydrocarbons/derivatives (SITC 511), valves/transistors/etc (SITC 776), meat and offal preserved (SITC 017)[37], wood manufactures (SITC 635), wire products (excluding insulated electrical wiring) and fencing grills (SITC 693), equipment for distributing electricity (SITC 773) and aluminium (SITC 684)[38].

It is also interesting to note that although the GCC countries are major producers of petroleum product, Malaysia's hydrocarbon gas products (SITC 344) gained competitiveness in the GCC market in 2007. Table 6-20 shows that the products that are gaining competitiveness in the gulf countries are mainly

[37] Meat and offal (other than liver) of poultry of subgroup 001.4, prepared or preserved, n.e.s

[38] This product group is mainly in the form of aluminium foil, aluminium bars/rod/prof., aluminium/alloy wire, aluminium tube fittings, aluminium alloys, and aluminium plate.

from the manufacturing product group which is enjoying high demand in the GCC market. Since the GCC countries are in the process of development and the per capita incomes in the region are high, this group of exports have a great chance to increase their foothold in the market.

Those products that are losing competitiveness in the GCC market can be seen in Table 6-21. The table reveals that there are only 11 Malaysian products that lost competitiveness in 2007. Furthermore, these products had either had a comparative advantage in 1998 or a consistent one for 2 or 3 years before 2007. Food-based products (SITC 046, 062, and 073) chemical-based products (SITC 512, 513 and 574) and machinery products (743, 759, and 775) are among the major products that had comparative disadvantage in the GCC market in 2007.In addition, flour/meal wheat (SITC 046), sugar confectionery (SITC 062), chocolate/cocoa preparations (SITC 073), alcohols/phenols/derives (SITC 512), polyacetals/polyesters (SITC 574) and office equipment parts (SITC 759) faced declining competitiveness despite their consistent competitive strengths in the early period of analysis. What can be learnt here is that most of the products that lost their competitiveness in the GCC market are capital intensive and Malaysia does not even have an advantageous position in producing these products in the domestic market despite its effort to enhance the halal product.

An investigation of Malaysia's RCA and competitiveness in the GCC market shows that Malaysia has a considerable number of strong product groups in the GCC market. Despite losing competitiveness in non-traditional Malaysian products, Malaysia is also improving its competitiveness in consumption products that have high demand in the GCC. This reveals the importance of intra-industry trade between Malaysia and GCC countries, and manufacturers in this same industry will find opportunities to trade with each other.

Table 6-20: Products Gaining Comparative Advantage in the GCC Market

Code	*Product name*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*
246	Wood chips/waste	0.5	0.3	0.0	0.0	0.6	**2.5**	**6.3**	**18.7**	**23.6**	**26.1**
678	Iron/steel wire	0.2	**4.1**	**3.0**	**2.0**	**2.0**	**2.1**	**4.4**	**6.7**	**7.7**	**7.7**
511	Hydrocarbons/derivatives	0.1	0.1	**2.5**	**2.4**	**5.2**	0.0	**1.9**	0.0	**1.8**	**4.6**
776	Valves/transistors/etc	0.1	0.2	0.2	**3.1**	**2.8**	**5.5**	**2.5**	**5.1**	**5.2**	**3.6**
344	Petrol./hydrocarbon gas	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0	**3.4**
017	Meat/offal presvd n.e.s	0.0	0.0	0.6	**3.9**	**3.8**	**3.9**	**2.1**	**2.3**	**3.1**	**3.2**
022	Milk pr exc butter/cheese	0.0	0.0	0.0	0.0	0.1	**1.2**	**1.8**	**1.7**	**1.5**	**2.7**
635	Wood manufactures n.e.s.	0.9	0.8	0.9	0.8	**1.1**	**1.3**	**1.1**	**1.7**	**2.0**	**2.5**
693	Wire prod excluding ins electric	0.8	**1.6**	**2.0**	**1.6**	0.9	**1.0**	**3.4**	**3.4**	**2.8**	**2.3**
612	Leather manufactures	0.4	0.0	0.0	0.0	**4.6**	**12.1**	0.5	**1.4**	**1.4**	**2.0**
881	Photographic equipment	0.1	0.1	0.2	0.1	0.0	0.8	**1.1**	0.3	**1.6**	**1.9**
773	Electrical distributing equip	0.2	0.5	**1.4**	0.6	1.0	0.4	**1.0**	**1.2**	**1.8**	**1.6**
071	Coffee/coffee substitute	0.0	0.0	0.1	0.3	0.3	0.8	**1.1**	0.7	1.0	**1.5**
684	Aluminium	0.9	**1.5**	**1.0**	0.9	**1.1**	**1.2**	0.9	0.8	**1.3**	**1.2**
657	Special yarns/fabrics	0.1	0.1	0.2	0.2	0.3	0.3	0.2	0.9	**1.6**	**1.2**
778	Electrical equipment nes	0.4	0.3	0.3	0.3	0.4	0.8	0.9	**1.1**	**2.0**	**1.1**
895	Office/stationery supply	0.8	0.6	0.7	0.9	0.8	1.0	0.7	**1.1**	**1.1**	**1.1**
232	Rubber synth/waste/etc	0.0	0.0	0.0	0.0	0.5	0.7	0.9	**1.1**	**1.0**	**1.0**

Source: UN COMTRADE database, obtained from World Integrated Trade Solution (WITS).
Calculated by using RCA_{ijG} index (equation 2)
*Share of Malaysian exports of commodity *j* to GCC relative to its total trade with GCC / share of World exports of commodity *j* to the GCC relative to its total trade with the GCC
Numbers in bold indicate RCA>1

Table 6-21: Products Losing Comparative Advantage in the GCC Market

Code	*Product name*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*
046	Flour/meal wheat/meslin	**1.5**	**1.6**	**1.1**	**1.4**	**1.5**	**1.1**	**1.1**	**1.3**	**1.0**	0.6
062	Sugar confectionery	**2.4**	**2.0**	**1.9**	**1.8**	**1.5**	**1.5**	**1.0**	0.9	0.8	0.4
073	Chocolate/cocoa preps	0.9	0.7	**1.6**	**2.1**	**1.3**	**1.2**	**1.5**	**1.3**	**1.0**	0.9
512	Alcohols/phenols/derives	**2.9**	**3.1**	**2.9**	**3.1**	**2.7**	**1.7**	**1.6**	**1.4**	**1.3**	0.8
513	Carboxylic acid compound	0.4	0.4	0.4	0.4	**1.0**	**1.7**	**2.3**	**1.1**	**1.1**	0.4
574	Polyacetals/polyesters..	0.7	**1.7**	**1.7**	**1.4**	**2.3**	**3.0**	**1.1**	0.9	0.7	0.6
692	Metal store/transpt cont	0.6	0.4	**1.4**	0.2	**1.0**	**1.0**	**2.3**	**2.1**	0.6	0.5
743	Fans/filters/gas pumps	0.3	0.3	0.3	0.4	**1.0**	**1.3**	**1.2**	**1.6**	**1.0**	0.8
759	Office equips parts/accs.	**1.1**	**1.2**	0.8	**3.0**	**3.7**	**3.4**	**1.5**	0.4	0.4	0.9
775	Domestic equipment	**2.0**	**1.1**	0.9	**1.0**	0.8	0.9	0.8	**1.0**	**1.0**	0.9
813	Lighting fixtures etc	**1.3**	**1.6**	**1.6**	**1.2**	0.9	0.7	0.6	0.7	0.7	0.7

Source: UN COMTRADE database, obtained from World Integrated Trade Solution (WITS).
Calculated by using RCA_{ijG} index (equation 2)
*Share of Malaysian export of commodity *j* to GCC relative to its total trade with GCC / share of World exports of commodity *j* to the GCC relative to its total trade with the GCC.

6.5.3 **Competition with other Asian countries**

In order to extend the analysis, the comparative advantages of selected Asian economies, which have high presence in the GCC export market, are also analysed. One important finding in Chapter 3, section 3.5.2, reveals that Asian economies have been major sources of imports for the GCC countries. Countries like China, Indonesia, Japan and Singapore are competitors for Malaysian exports in the region. Importantly, country like Singapore that already has a free trade agreement with the GCC countries is becoming Malaysia's main export competitor in the Arab Gulf market. Therefore, it is important to assess Malaysian export competitiveness vis-a-vis Asian leading importers in GCC markets based on findings presented above (see section: 6.5.2).

As identified in an RCA analysis of Malaysia with respect to the GCC market, exports of palm oil, electronic and electrical products, jewellery and furniture have been Malaysia's main export strength in the GCC market. Hence, this section analyses the structural effect on Malaysia's competitiveness in the GCC market for those products in comparison with China, Indonesia, Japan and Singapore. Table 6-22 - Table 6-26 summarise the RCA comparison. From these tables, certain observations may be made:

First, it is clear that among Asian countries, Malaysia holds a great advantage in exporting palm oil products to the GCC market. Only Singapore and Indonesia have exported these products there. Knowing that Singapore does not produce palm oil, it can be inferred that it imports this product and re-exports it to the Gulf market. It is important to note that Indonesia's competitiveness in this product in the Gulf area has been steeply increasing until in 2007, the RCA was 22.12. This implies that, Malaysia's nearest competitor for this product in the Gulf is Indonesia.

Table 6-22: Asian Countries Export Competitiveness for Palm Oil Products in GCC Market

Country	**SITC 4222 – Palm oil and its fraction**									
	1998	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Malaysia	**64.8**	**47.7**	**45.1**	**50.7**	**59.3**	**58.5**	**48.9**	**50.3**	**41.7**	**39.1**
Indonesia	2.44	3.06	1.07	1.26	0.36	1.01	1.61	3.86	26.27	22.12
Singapore	5.39	7.79	6.48	6.48	3.91	4.79	4.76	3.14	3.78	3.05

Source: Author's calculation by using RCA_{ijG} index (equation 2). Based on UN COMTRADE database, obtained from World Integrated Trade Solution (WITS)

Second, in terms of its exports of industrial heating/cooling equipment to the GCC countries, apart from China, Malaysia has had strong advantage in this product over other Asian countries in the GCC market. Malaysia's RCA index for this product group has been fairly stable throughout the ten-year period covered in this study. Only China has an RCA over unity from 2004 to 2006 and Japan in 1999.

Table 6-23: Asian Countries Exports Competitiveness for Industrial Heating/Cooling Equipment in GCC Market

Country	**SITC 741 - Industrial heating/cooling equipment**									
	1998	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Malaysia	**1.54**	**1.42**	**1.65**	**1.45**	**1.17**	**1.42**	**1.67**	**2.26**	**2.01**	**1.63**
China	0.11	0.24	0.30	0.33	0.47	0.75	1.15	1.38	1.14	0.85
Indonesia	0.03	0.01	0.04	0.06	0.02	0.07	0.02	0.01	0.06	0.12
Japan	0.93	1.41	0.68	0.52	0.39	0.51	0.43	0.52	0.46	0.54
Singapore	0.84	0.89	0.79	0.50	0.63	0.77	0.68	0.39	0.49	0.29
India	0.1	0.3	0.23	0.23	0.26	0.37	0.49	0.37	0.35	0.33

Source: Author's calculation by using RCA_{ijG} index (equation 2). Based on UN COMTRADE database, obtained from World Integrated Trade Solution (WITS)

Third, in terms of competitiveness for electronic and electrical products to the GCC countries among the Asian exporters, Malaysia's electronic and electrical export performance in terms of the RCA ratio was dominant only for SITC 761, television receivers, over the whole ten-year period. Meanwhile, for SITC 752, computer equipment, and SITC 762, radio receivers, Malaysia's export performance ratio was dominant in the GCC market only in 1999, 2000, 2005 and 1998, 1999, 2000, 2003 respectively. SITC 752 competitiveness in the GCC market was dominated by Singapore between 2001 and 2004, then China

rose to the top in this product in 2006 and 2007. In the meantime, Indonesia was highly competitive in SITC 762 from 2004 to 2007.

Table 6-24: Asian Export Competitiveness for Electronic And Electrical Products in GCC Market

Country	**SITC 752 – Computer equipment**									
	1998	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Malaysia	4.1	**3.5**	**3.2**	3.3	2.3	2.4	2.3	**2.8**	2.2	1.8
China	0.73	0.98	0.95	1.04	1.03	1.39	1.46	2.43	**3.01**	**3.45**
Indonesia	0.03	0.15	1.16	1.52	1.83	0.52	1.22	0.79	0.65	0.45
Japan	0.23	0.32	0.22	0.17	0.12	0.15	0.15	0.15	0.13	0.17
Singapore	**4.47**	2.13	2.36	**4.43**	**4.68**	**5.27**	**3.06**	1.83	2.30	1.53
India	0.03	0.03	0.02	0.03	0.03	0.08	0.04	0.07	0.05	0.03
	SITC 761 – Television receivers									
	1998	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Malaysia	**15.5**	**13.3**	**10.8**	**10.0**	**11.8**	**11.4**	**10.0**	**9.6**	**10.3**	**13.6**
China	1.30	1.34	1.27	1.99	2.48	2.96	2.71	3.39	3.52	2.85
Indonesia	0.51	0.47	1.69	2.18	2.41	2.80	3.92	5.06	3.79	1.94
Japan	1.48	1.38	0.93	0.76	0.62	0.66	0.99	1.20	1.51	1.24
Singapore	6.14	4.04	3.53	3.68	3.36	2.91	1.87	1.76	0.94	1.39
India	0.23	0.31	0.15	0.22	0.22	0.39	0.41	0.42	0.29	0.26
	SITC 762 – Radio broadcast receiver									
	1998	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Malaysia	**15.3**	**21.1**	**15.1**	9.3	9.1	**16.2**	13.3	13.8	14.9	9.8
China	7.89	6.18	4.14	4.11	3.69	3.44	2.62	2.85	2.04	2.23
Indonesia	3.86	2.72	6.54	11.40	**15.50**	11.22	**17.01**	**22.26**	**22.55**	**19.59**
Japan	1.26	1.15	0.85	0.47	0.62	0.50	0.34	0.40	0.35	0.27
Singapore	13.31	9.08	10.16	**15.37**	11.47	8.02	8.50	6.43	6.60	5.47
India	0.00	0.00	0.00	0.00	0.00	0.01	0.01	0.03	0.00	0.00
	SITC 763 Sound/ Tv recorders etc									
	1998	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Malaysia	9.4	8.3	7.4	8.2	6.7	3.8	2.9	3.5	2.7	2.0
China	1.87	2.15	1.34	1.93	2.52	2.89	1.98	2.41	2.40	2.43
Indonesia	0.09	0.24	2.18	2.56	2.57	4.65	3.61	2.66	2.17	0.56
Japan	3.64	4.17	4.06	3.81	3.62	4.45	5.50	**6.30**	**6.92**	**5.49**
Singapore	**12.55**	**10.16**	**11.17**	**10.75**	**10.75**	**9.11**	**7.68**	5.54	4.27	3.60
India	0.04	0.06	0.02	0.01	0.01	0.04	0.01	0.04	0.03	0.01

Source: Author's calculation by using RCA_{ijG} index (equation 2). Based on UN COMTRADE database, obtained from World Integrated Trade Solution (WITS)

Surprisingly, despite having been the strongest competitor in the global market for SITC 763, Malaysia's competitiveness in the GCC market for this product group has been overtaken by Singapore and Japan.

Fourth, besides the increasing export of Malaysian furniture products as indicated in Table 6-14, this group has also been competitive in the GCC countries since 1998. Among the major Asian exporters to the GCC countries, Malaysia holds strong advantage in this product. Table 6-25 shows that apart from China and Indonesia, other Asian countries' export performance ratio for this product has been very low. Thus, this creates a huge opportunity for Malaysian exporters to the Gulf.

Table 6-25: Asian Exports Competitiveness for Furniture Products in GCC Market

Country	821 Furniture/stuff furnishing									
	1998	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Malaysia	**5.8**	**5.7**	**6.1**	**5.9**	**7.1**	**8.4**	**6.5**	**5.8**	**5.7**	**4.3**
China	0.83	0.61	0.74	1.08	1.68	2.12	2.33	2.96	3.36	2.92
Indonesia	0.54	1.88	2.12	2.40	2.58	3.09	3.43	3.38	2.22	2.03
Japan	0.05	0.05	0.04	0.03	0.04	0.04	0.04	0.02	0.01	0.02
Singapore	0.39	0.41	0.48	0.44	0.41	0.20	0.10	0.09	0.27	0.34
India	0.08	0.07	0.06	0.08	0.08	0.15	0.13	0.14	0.12	0.10

Source: Author's calculation by using RCA_{ijG} index (equation 2). Based on UN COMTRADE database, obtained from World Integrated Trade Solution (WITS)

Fifth, the competitiveness of Malaysian jewellery exports is strong. Table 6-26 shows that Malaysia dominates the market to the GCC countries. Its main rival in this product is India followed by Singapore.

What can be learnt from this is that, despite Malaysia exports more of these products to the GCC countries than any other competitor and being highly competitive globally in the Gulf market in these products, it has been facing strong competition from other major Asian economies that export similar products to there. Nevertheless, in products such as jewellery, furniture, palm oil, industrial heating/cooling equipment and television receivers, Malaysia is

still the dominant competitor in the region vis-à-vis Asian exporters. This indicates great potential for expansion.

Table 6-26: Asian Export Competitiveness for Jewellery Products in GCC Market

Country	SITC 897 – Jewellery									
	1998	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Malaysia	**8.5**	**9.5**	**10.6**	**10.5**	**7.4**	**7.3**	**7.4**	**9.4**	**8.5**	**8.7**
China	0.04	0.05	0.04	0.05	0.04	0.03	0.02	0.04	0.06	0.06
Indonesia	0.48	0.55	0.39	0.39	0.23	0.44	0.30	0.30	0.29	0.60
Japan	0.00	0.01	0.00	0.01	0.00	0.00	0.00	0.03	0.01	0.01
Singapore	2.20	2.20	1.91	2.16	3.40	4.84	3.56	2.12	2.03	2.82
India	4.19	2.32	2.03	3.16	2.79	3.42	5.46	5.01	5.12	4.29

Source: Author's calculation by using RCA_{ijG} index (equation 2). Based on UN COMTRADE database, obtained from World Integrated Trade Solution (WITS)

6.6 CONCLUSION

This chapter aimed to conduct an empirical study on bilateral trade relations between Malaysia and GCC countries. It also investigated Malaysia's comparative advantage with respect to the GCC countries by employing Balassa's index of Revealed Comparative Advantage (RCA). Thus, it examines Malaysia's export potential and reveals comparative advantage with respect to the GCC group through post-trade data as a possible starting point. The analysis is then extended by comparing Malaysia's comparative advantage with respect to the GCC market over the major Asian competitor.

Despite Malaysia's efforts to increase further its volume of trade with the GCC countries, it is now clear that, their trade relation has well below expectations. Nevertheless, an increasing trend shows promising future prospects for trade between these countries. An analysis of the intensity index, which was carried out in this chapter, demonstrates some interesting findings. The UAE and Oman were identified as having high level of trading with Malaysia, and thus they are the most attractive countries to trade with Malaysia in the region. On the other hand, the findings show that Malaysia's bilateral trade relation with the GCC is much directed by its exports in relation to these

countries. In terms of trade composition, bilateral trade relations with the GCC are less diversified and much more concentrated on certain products especially oil- and petroleum-related products.

An investigation of Malaysia's exports composition to the GCC countries, which is a main aim of this study, revealed that Malaysia's exports to this market mainly come from palm oil, jewellery, manufactured goods, and electronic and electrical products. Based on this finding, an analysis of Malaysia's competitiveness with respect to the GCC has been intensively carried out and discussed. This was done by employing two indices of revealed comparative advantage, and calculated for the period 1998 to 2007. The analysis shows that there is considerable evidence for Malaysian products which have been identified to be expanded in the GCC countries.

It is important to note here that an analysis of revealed comparative advantage shows that all Malaysia's major export products have been competitive in the GCC countries with respect to the world exports to the GCC. More importantly, there are also other products that have high competitiveness in the GCC market which are improving their level of comparative advantages and possible expansion in the GCC market. Nevertheless, the competitiveness of Malaysia's major export products against its rivals in the Asian region show mix results. Among the Asian economies, Malaysian competitors which are expanding their exports to GCC market are China, Singapore, Japan and Indonesia. Specifically these exports relate to selected electrical and electronic products which have been discussed above in detail (section 6.5.3).

It may be concluded that the RCA indices provide a useful tool to analyse a country's comparative advantage in both global and bilateral markets. This has been useful to formally establish Malaysia's competitiveness in the GCC market. This undoubtedly has further implications for Malaysia's desire to have a free trade agreement (FTA) with the GCC.

The analysis in the preceding section suggests that the GCC countries' trade relations with Malaysia are less significant as compared to both parties' major trading partners. Nevertheless, recent developments in trade relations together with recent economic cooperation among Muslim countries and Malaysia's diversification of trade strategy have led to a stronger basis for strengthening bilateral trade.

It may also be concluded that a large opportunity is available to increase Malaysia's trade relations with the GCC. As Malaysian policy-makers are fully aware the existing volume of trade with the GCC is relatively low and needs to be increased. To this end, they are openly encouraging Malaysian traders to explore the GCC market and insisting on free trade talks with the GCC. With the current efforts, overall trade between GCC and Malaysia is expected to increase at a faster pace in the future.

Although, there is an important potential for trade between Malaysia and the GCC bloc, it is important to note that both governments have to take a comprehensive approach and address other issues as well. Since tariff barriers are not a problem for Malaysian exporters to the GCC countries, as discussed in Chapter 3, other issues such as transport and financial facilities, trade promotion activities, and traders' views on the market must be considered (Amin and Hamid, 2009). In view of this, a comprehensive study based on primary data collected from the Malaysian stakeholders and the aim of delving further into these factors, has been carried out in this research and presented in the Chapter 7. This is expected to shed further lights on issues in terms of developments, barriers and challenges in Malaysia's export to the region by benefiting from the experience of the participants.

Chapter 7 EXPLORING THE POTENTIAL AND PROSPECTS FOR TRADE BETWEEN MALAYSIA AND THE GCC: QUESTIONNAIRE ANALYSIS

7.1 EVIDENCE FROM BUSINESS QUESTIONNAIRE SURVEY

The preceding chapter provided quantitative analysis in revealing the trade relations and the competitive advantage of Malaysia in trading with the GCC region. It is important to delve further into the issues of Malaysia's trade relations with the region. For this, primary data has been collected from a questionnaire survey which is analysed in this chapter and sheds light on the issues raised.

The questionnaire was conducted with the Malaysian trader, who plays an important role in creating trade relation between the countries. Even though a country may have first-class facilities and an official policy in encouraging trade relations, it is meaningless if traders do not engage in trade with the particular countries, hence the importance of traders.

This study, therefore, surveyed a number of Malaysian businessmen with the objective of gauging their perceptions towards the GCC market and Malaysia's trade initiatives in the region. The questionnaire was conducted between November 2008 and January 2009. The findings from the analysis of the primary data, thus, might support and substantiate the conclusion of the RCA and intensity analyses presented in the previous chapter. As Malaysia is proposing a free trade agreement (FTA) with the GCC, it is also important to reveal the perceptions and opinions of the Malaysian businessmen towards the establishment of a Malaysia-GCC FTA. Although the analysis in the previous chapter revealed that there is a huge potential for Malaysia in certain products in the GCC market, it is also feasible to study the activeness and participation of these traders in the GCC market.

As regards to the process of collecting the primary data, the contact details of Malaysian businesses with email addresses, as well as fax and telephone numbers, were collected from the Malaysia External Trade Development Corporation (MATRADE) database. The questionnaire was sent to around 1500 Malaysian traders during the period from November 2008 to January 2009. However, it should be noted that the questionnaires were predominantly conducted by email and telephone. Some of the respondents were requested to be interviewed in person, and we managed to utilise an exhibition organised by MATRADE on November 2008 to meet some of the respondents during this event. As some of the questionnaires were passed on personally, this provided a personal touch. In doing so, this helped to increase the response rate in comparison to that which might have obtained had the questionnaire been sent out through the email or by telephone.

However, the low response rate, approximately 5.3 percent was not unexpected considering the general lack of awareness of the traders as well as their need to attend to their business. The absence of incentives (frequently used by commercial polling agencies) and the method of conducting the survey by using email and the internet also contributed to the poor response rate. Furthermore, it was also found that the online databases regarding the contact details of the Malaysian businessmen provided by MATRADE were found to be incomplete and/or outdated. Since the databases provided were not comprehensive, the sample survey of this research could not be established. In the end, the study only obtained 134 valid responses.

In analysing questionnaire surveys, Julie (2004) suggested the need to identify the questions that the research is required to answer. Therefore, in this analysis, we have identified three major questions to be analysed. Firstly, to find out the traders' motivation and reason for trading with GCC countries; secondly, to discover the challenges and obstacles that Malaysian traders have to face while trading in the GCC market; and finally, most importantly in this

research, to assess their interest in a free trade agreement between Malaysia and the GCC bloc. These three questions have been derived from one of the main objectives of this thesis which is to analyse Malaysian traders' perceptions toward the GCC market.

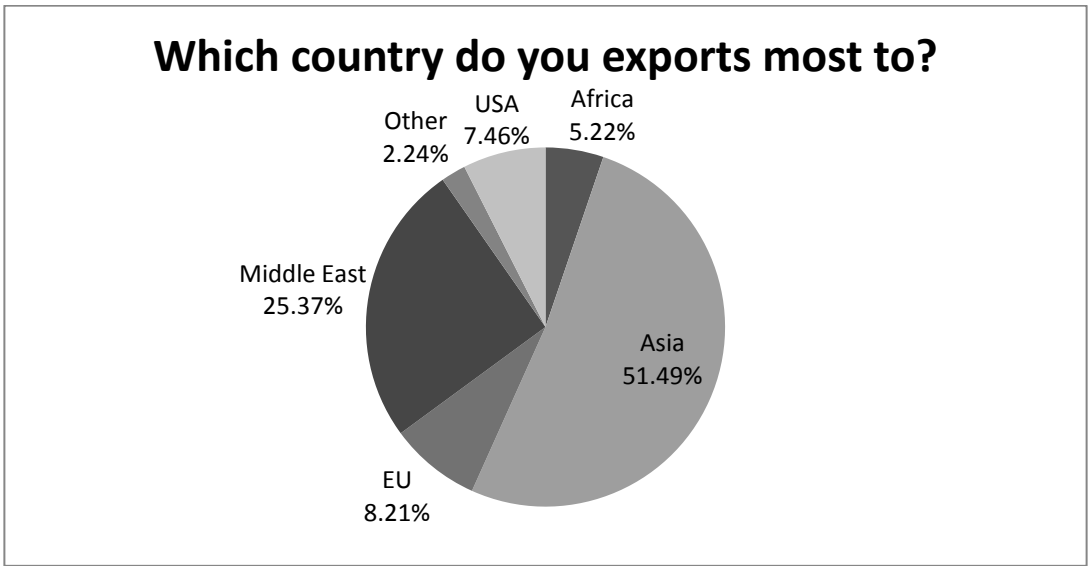
Once the questions had been identified, questionnaire items and scales were analysed in order to determine which statistical techniques were the most suitable. In a questionnaire, four types of scales are typically used. These are nominal scales, ordinal scales, interval scales and ratio scales. All the measurement types of scales need to be carefully identified as they lead to the selection of the statistical techniques, and may have different interpretations (Foster, 1998). For example, one should employ the parametric statistical tests when an interval or ratio scales of measurement were used. For the non-parametric test, such as the chi-square, normal or categorical scales are the most suitable ones to be used.

Finally, when all the information has been collected, several statistical tests have to be conducted in order to analyse and to perform accurate tests on each responses to the questions asked in the survey.

7.2 SURVEY FINDINGS ON TRADERS' PERCEPTIONS TOWARDS THE GCC MARKET - BACKGROUNDS OF THE RESPONDENTS

The responses to the questionnaire confirm the trend of Malaysia's trade direction, in which Asia is Malaysia's largest regional trading partner. Although the USA was Malaysia's second largest trading partner in 2007, in terms of the export proportions among the region, Asia remains the largest destination for Malaysian exports(this can be seen in chapter 4, section 4.3.2). Consequently, of our respondents, 51.5 percent stated that Asia was the region they exported most to, followed by the Middle East and the EU (see Figure 7-1).

Figure 7-1: Survey responses to question A4.



In terms of the main activity of the respondents, as can be seen in Table 7-1, most respondents are in manufacturing sector which accounted for more than 50 percent of the total respondents. This was followed by the services' sector – comprising the banking and financial services sector, trade services, the education sector etc-at 11.19 percent followed by the retail/wholesale sector at 8.9 percent.

Table 7-1: Main activity of the survey respondents (Question number A-1)

Main trading activity	**Percent**
Manufacturing	53.73
Oil/Gas/Petrochemicals	4.48
Services	17.16
Agriculture and Foodstuffs	6.72
Construction	2.99
Retail/Wholesale	8.96
Other	5.97

The main activity of respondents has been classified according to Malaysian Standard Industrial Classification (MSIC) 2000 codes. The classification is obtained from Malaysia Small Medium Enterprise (SME) info website, http://www.smeinfo.com.my/index.php?ch=2&pg=1&lang=

The sector distribution of the survey's respondents is generally represented with Malaysia's GDP sector composition (as can be seen in chapter

3. Apart from the services sector which comprises both private and government sectors in which there has been a Malaysian engine of growth. Manufacturing is the largest sector with private sector involvement. It is then followed by mining and quarrying, (in this survey, a respondent from this sector was not included), next by the agricultural sector and finally by the construction sector. Generally, the distribution sector of Malaysian GDP is consistent with the main sectors represented in the survey sample.

Since this survey focused on the GCC market, the response from those involved in trade with the GCC market was not very high. As can be seen in Table 7-2, only half of the respondents (47.8 percent) have had an experience in trading in the GCC market. The majority of those who have had trade experience with the GCC market come from the manufacturing sector which accounted for 2.4 percent of all respondents.

Respondents from the services sector were the largest in this survey. It comprises 10 percent of all respondents. There are then followed by those in the retail/wholesale sector. The major activities for both groups of respondents (in terms of trading experience with the GCC) reflect Malaysian economic background.

Table 7-2: Respondents Main Activity Background and Trading Experience with the GCC

Main trading activity	Trading experience with the GCC market	
	Yes	No
Manufacturing	30 (22.4)	42 (31.3)
Oil/Gas/Petrochemicals	5 (3.7)	1 (0.7)
Services	11 (8.2)	12 (9)
Agriculture and Foodstuffs	4 (3)	5 (3.7)
Construction	4 (3.9)	0 (0)
Retail/Wholesale	6 (4.5)	6 (4.5)
Other	4 (3)	4 (3)
Total	64 (47.8)	70 (52.2)

Number in parentheses is a percentage

Interestingly, most of the respondents who traded with the GCC countries are considered as newcomers in the GCC market. As Table 7-3 depicts, 74 percents of them have less than 5 years experience doing business in the GCC countries, and only 2 percent of them have more than 20years experiences. It might be said that the trend shows that business relations between Malaysia and the GCC are still young, and that the Malaysian businessmen's tendency over the last five years is to gravitate towards the GCC market.

Table 7-3: Malaysian businessmen experience in the GCC market

Experience	Percent
Less than 6 years	73.77
6 - 10 Years	18.03
11 - 15 Years	6.56
16 - 20 Years	0.00
More than 20 Years	1.64

The cross-tabulation of the characteristics of those companies having trading experiences with the GCC countries shows that the majority of them

were SME companies, which is shown in Table 7-4. With 61 percent of those trading companies having less than 150 employees for manufacturing sector and less than 50 employees for other sectors, and also 51 percent of them having less than US$5 million.

Table 7-4: Characteristics of respondents to questionnaire survey

a3- Approximately, how many people does your company employ?							
Main Sector	Less than 10	11 - 50	51 - 100	101 - 250	251 - 500	501 - 1000	Unspecified
Manufacturing	7.81%	14.06 %	7.81%	10.94 %	3.13%	1.56 %	1.56%
Oil/Gas/ Petrochemicals		6.25%			1.56%		
Services	6.25%	6.25%	4.69%				
Agriculture and Foodstuffs		3.13%	1.56%				1.56%
Construction	1.56%			1.56%	1.56%	1.56 %	
Retail/Wholesale	3.13%	1.56%	1.56%	1.56%	1.56%		
Other	1.56%	1.56%	1.56%		1.56%		
Total	20.31 %	32.81 %	17.19 %	14.06 %	9.38%	3.13 %	3.13%

a2- Approximately what are the annual sales (turnover) of your business?					
Main Sector	Less than US$ 5 M	US$ 5 M - US$20 M	US$21 M - US$50 M	More than US$50 M	Unable to disclosure
Manufacturing	26.56%	9.38%		3.13%	7.81%
Oil/Gas/ Petrochemicals	1.56%	3.13%	1.56%	1.56%	
Services	10.94%	1.56%		1.56%	3.13%
Agriculture and Foodstuffs	1.56%	4.69%			
Construction	3.13%	1.56%		1.56%	
Retail/Wholesale	4.69%	1.56%		1.56%	1.56%
Other	3.13%	1.56%		0.00%	1.56%
Total	51.56%	23.44%	1.56%	9.38%	14.06%

According to the National SME Development Council (SMIDEC, 2009) Malaysia, there is no common definition of small-and medium-size enterprises (SMEs) in Malaysia. Different agencies define SMEs based on their own criteria, usually benchmarking against annual sales turnover and the number of full-time employees. Shareholder funds are also used to define the Small Medium

Enterprises (SMEs) industry. However, SMIDEC provides its own definition for the SME industry in Malaysia so that it may be used as a reference for other agencies such as financial institution etc. Therefore, we are using the SMIDEC definition as a reference point in this analysis. It is based on two basic criteria, namely the number of employees and annual turnover[39].

Table 7-5: Respondents' Trade Experience With Individual GCC Countries.

Trade experience with Bahrain			**Trade experience with Qatar**	
	Valid Percent			Valid Percent
Yes	15.38		Yes	17.31
No	84.62		No	82.69
Total	100.00		Total	100.00
Trade experience with Kuwait			**Trade experience with Saudi Arabia**	
	Valid Percent			Valid Percent
Yes	17.31		Yes	53.57
No	82.69		No	46.43
Total	100.00		Total	100.00
Trade experience with Oman			**Trade experience with UAE**	
	Valid Percent			Valid Percent
Yes	9.80		Yes	80.33
No	90.20		No	19.67
Total	100.00		Total	100.00

When asked in which country in the GCC they have had business experience, as Table 7-5 demonstrates, 80 percent of those asked stated that they had had trade experience with the UAE, 53 percent of them with Saudi Arabia, followed by Kuwait and Qatar. The respondents have had less trade experience with Bahrain. Only 15 percent of them had ever experienced trading with Bahrain. It is also somewhat surprising that the respondents have had even lesser trading experience with Oman. Only 9.1 percent of them, had trade there although from previous analysis in Chapter 6, Malaysia's trade intensity with Oman has been quite high compared to other GCC countries.

39 According to the National SME Development Council (SMIDEC) definition, SME is divided into three categories; agriculture, manufacturing and services. More details can be found in the Appendix 10.

7.3 PERCEPTIONS ON POTENTIAL MOTIVATION TO TRADE WITH THE GCC COUNTRIES

One of the most important facts to find out in this survey is what motivates traders to trade with GCC countries. Question b1.1 in the questionnaire was specifically designed to discover this. There are several potential factors that might encourage Malaysian traders to market their goods in the GCC countries.

Nevertheless, one finding in this survey shows that most respondents approved of the relationship that Malaysian government has developed with the GCC countries. Almost 64 percent of the Malaysian traders agreed that there is a strong relationship between Malaysia and the GCC and that this is a major factor that encourages them to trade with the GCC countries. On the other hand, on the question of the religion only 43.8 percent agreed that they traded with the GCC because of religion (see Table 7-6). In this analysis, hence, we cannot establish a relationship between religion and trade motivation as the respondents did not fully answer the religion question, even though it may be interesting to analyse.

Overall, it can be said that Table 7-6 depicts the most important reason for the traders to trade with the GCC countries; firstly, because, the government has strong political relationships with the GCC countries and this is accompanied by the financial facilities that are provided in the region. Further analysis on the traders' motivation concerning their main business activity of the respondents will arise in the cross-tabulation analysis.

Table 7-6: Traders' Motivation to Trade With The GCC Countries

No	Statements	Strongly Agree	Disagree	Neutral	Agree	Strongly Agree
1	Excellent logistic facilities in the country		3.1 %	43.8 %	45.3 %	3.1 %
2	Excellent financial facilities in the country		1.6 %	32.8 %	57.8 %	3.1 %
3	Political stability in the country		3.1 %	42.2 %	46.9 %	3.1 %
4	Malaysian government has strong relationship with the GCC countries		4.7 %	26.6 %	51.6 %	12.5 %
5	There is no language barrier	1.6 %	4.7 %	37.5%	45.3 %	6.3 %
6	Low and acceptable taxes rates		9.4 %	50 %	35.9 %	95.3 %
7	Religious affinity		10.9 %	40.6 %	37.5 %	6.3 %

Table 7-7 - Table 7-11 show the respondents' motivation for doing business in the GCC region and their main business activity. The statement that "GCC countries have excellent logistic facilities", was approved by 100 percent of the oil/gas and petrochemical-based Malaysian businessmen and is applicable across the region. Interestingly, businessmen from the construction industry seemed to be dissatisfied with the logistic facilities provided in the region. Twenty-five percent of them disagreed with the statement and 50 percent opted for 'neutral'. Except for traders from the agricultural and foodstuff industries of whom 66 percent agreed with the statement, other businessmen coming from other sectors mainly selected neutral.

In terms of their perception towards financial facilities across the Gulf countries, the oil/gas and petrochemical related businessmen and the agricultural and foodstuffs traders seem to be satisfied with the facilities provided. Table 7-8 shows that 75 percent of the oil/gas and petrochemical-based businessmen agreed and 25 percent strongly agreed that financial facilities in the GCC countries are excellent and 100 percent of the agricultural and foodstuffs traders also agreed that the financial facilities provided in the GCC countries are of high standard. In contract and echoing the findings in

Table 7-7, the Malaysian contractors who are dealing with the GCC countries, disagreed with the statement that the GCC countries provide high-class financial facilities. Other businessmen remain neutral to this statement and almost 50 percent of them selected this option.

Table 7-7: Cross-tabulation between main business activity and traders' motivation to trade with the GCC countries (Excellent logistic facilities in the GCC countries).

Main activity	Disagree	Neutral	Agree	Strongly agree	Total
Manufacturing	3.45	51.72	44.83	0.00	100.00
Oil/Gas and Petrochemicals	0.00	0.00	75.00	25.00	100.00
Services	0.00	54.55	36.36	9.09	100.00
Agriculture and Foodstuffs	0.00	33.33	66.67	0.00	100.00
Construction	25.00	50.00	25.00	0.00	100.00
Retail/Wholesale	0.00	50.00	50.00	0.00	100.00

Chi-square = 0.039

Table 7-8: Cross-tabulation between main business activity and traders' motivation to trade with the GCC countries (Excellent financial facilities in the GCC countries)

Main activity	Disagree	Neutral	Agree	Strongly agree	Total
Manufacturing	0.00	31.03	68.97	0.00	100.00
Oil/Gas and Petrochemicals	0.00	0.00	75.00	25.00	100.00
Services	0.00	54.55	36.36	9.09	100.00
Agriculture and Foodstuffs	0.00	0.00	100.00	0.00	100.00
Construction	25.00	25.00	50.00	0.00	100.00
Retail/Wholesale	0.00	66.67	33.33	0.00	100.00

Chi-square = 0.022

Regarding political stability, respondents from the oil/gas and petrochemical, services, agriculture and foodstuffs, and construction industry expressed positive responses towards the GCC countries. From the Table 7-9, it shows more than 50 percent of the each respondent from the above industry agreed with the current political stability in the region.

Table 7-9: Cross-tabulation between main business activity and traders' motivation to trade with the GCC countries (Political stability in the country)

Main activity	Disagree	Neutral	Agree	Strongly agree	Total
Manufacturing	3.45	48.28	48.28	0.00	100.00
Oil/Gas and Petrochemicals	0.00	25.00	50.00	25.00	100.00
Services	0.00	36.36	54.55	9.09	100.00
Agriculture and Foodstuffs	33.33	0.00	66.67	0.00	100.00
Construction	0.00	25.00	75.00	0.00	100.00
Retail/Wholesale	0.00	83.33	16.67	0.00	100.00

Chi-square = 0.038

On the other hand, respondents involved in manufacturing and retail/wholesale are uncertain about the political stability in the GCC countries, 48.28 percent and 83 percent of whom respectively opted for choose neutral on this issue. It is also interesting to note that, although the majority of agricultural and foodstuffs businessmen agree with this statement, the highest number of people who disagree with this statement come from this sector, where 33 percent of them have doubt about political stability in the Gulf region.

Table 7-10: Cross-tabulation between main business activity and traders' motivation to trade with the GCC countries (Low and acceptable taxes rates)

Main activity	Disagree	Neutral	Agree	Total
Manufacturing	13.79	48.28	37.93	100.00
Oil/Gas and Petrochemicals	0.00	25.00	75.00	100.00
Services	0.00	63.64	36.36	100.00
Agriculture and Foodstuffs	0.00	66.67	33.33	100.00
Construction	0.00	50.00	50.00	100.00
Retail/Wholesale	16.67	66.67	16.67	100.00

Chi-square = 0.030

Meanwhile, regarding the tax issues in the region, Table 7-13 shows the result. Although the taxes rates in the region were already low, this is not the reason why most of the respondents trade with the GCC countries. Apart from

the high motivation of the oil/gas and petrochemical businessmen (75 percent), most of the other respondents do not agree that low taxes are their main motivation to trade with the GCC countries. Almost 64 percent of the respondents from the service sector, 67 percent from the agricultural and foods industry, and 67 percent of retailers and wholesalers chose not to agree with this statement (remain neutral).

It is also interesting to note that 14 percent of respondents from the manufacturing sectors and 17 percent of from the retail/wholesale sector disagree that low and acceptable tax rates are one of their motivations to trade with the GCC countries. Table 7-10 shows that low tax rates in the GCC countries are not are sufficient reason for most Malaysian traders to increase their trade with these countries.

Table 7-11: Cross-tabulation between main business activity and traders' motivation to trade with the GCC countries (Religious affinity)

Main activity	Disagree	Neutral	Agree	Strongly Agree	Total
Manufacturing	10.34	44.83	37.93	6.90	100.00
Oil/Gas and Petrochemicals	25.00	0.00	75.00	0.00	100.00
Services	18.18	36.36	36.36	9.09	100.00
Agriculture and Foodstuffs	0.00	33.33	66.67	0.00	100.00
Construction	25.00	50.00	25.00	0.00	100.00
Retail/Wholesale	0.00	66.67	33.33	0.00	100.00

Chi-square = 0.030

At the same time, Table 7-11 shows cross-tabulation between religious affinity factor and main business activity of the respondents. The table shows mixed findings for each sector. Seventy-five percent of respondents from the oil/gas and petrochemical industries, and 67 percent of those from the agricultural and foods industries agree that religious affinity is a motivation for them to trade with the GCC countries. Interestingly, 25 percent of the respondents from construction, 18 percent from the services and 25 percent from the oil-based sector disagree that religious affinity is the motivation for

them to trade with the Gulf countries. On the other hand, it is also worth noting that majority of the retailers/wholesalers neither agree nor disagree that religious affinity is one of the reasons why they do business with their counterparts in the Gulf.

In conclusion, the above tables show that it is difficult to establish a particular reason why Malaysian businessmen trade with the GCC member countries. While oil and gas traders seem to agree with all statements, and respondents from an agricultural sector opt for high-class and competitive financial facilities in the GCC member countries as the main reason of doing business in the Arab-gulf countries.

7.3.1 **Trading experiences, challenges and obstacles in doing business in the GCC countries**

Question number B3 in the questionnaire (Based on your experience, what do you think about the GCC market?) specifically asked the traders about their experience with the GCC countries. The result is depicted in Table 7-12. Generally, the majority of respondents (more than 70 %) stated that the GCC market is a good market for their business. Only a few rated the GCC market as an average market for them, and no one has a negative perception of it.

Table 7-12: Traders' perceptions of the GCC market

	Frequency	**Percent**	**Valid Percent**
Very favourable	7	10.9	10.9
Favourable	40	62.5	62.5
Indifferent	17	26.6	26.6
Not Favourable	0	0	0
Very not favourable	0	0	0
Total	64	100.0	100.0

It is also worth discussing the main activity of the respondents in their trading experience with the GCC countries. This will certainly give a better picture of each industry's perception towards overall trading experience in the market. Table 7-13 provides a crosstabulation of the respondents' main business activities and their overall views on the market. It is interesting to note here that, as in previous analysis of their motivation, again respondents from the oil/gas, and the petrochemical and agricultural and foodstuffs industries have positive perceptions of the GCC market. Table 7-13 shows, respectively, 80 percent and 100 percent of these respondents perceived that the GCC countries are a good market for them in which to do business. Besides that, a huge proportion of manufacturers, constructers, and services industry people believe that the GCC markets are promising for their businesses.

On the other hand, this survey also reveals that the retailers/wholesalers seem not to be happy with the GCC market. Table 7-13 shows that 50 percent of the respondents from this sector do not believe the GCC market is a good market for their business. They perceive that it only gives an average opportunity for them.

Table 7-13: Crosstabulation between traders' experience with the GCC market and respondents' main business sector

Main activity	Very favourable	Favourable	Average	Total
Manufacturing	6.67	66.67	26.67	100.00
Oil/Gas and Petrochemicals	20.00	60.00	20.00	100.00
Services	9.09	63.64	27.27	100.00
Agriculture and Foodstuffs	25.00	75.00	0.00	100.00
Construction	0.00	75.00	25.00	100.00
Retail/Wholesale	16.67	33.33	50.00	100.00

Chi-square = 0.40

Although most Malaysian traders agreed that the GCC market is favourable for them, there are several issues that they have been facing while

doing their business there. When the views of Malaysian traders were surveyed regarding the main obstacle to trade with the GCC countries, the largest proportion of the participants (32.8 percent) stated that the main challenge was to have testing certification or approval procedures for their products in the GCC countries. In contrast, taxes and regulations seemed to not be a big problem for them. Only 10 percent of the respondents encountered this issue while trading with the GCC countries (see Table 7-14).

Table 7-14: Traders' views on the obstacles to doing business in the GCC countries

Obstacles and challenges	Percentage
Tax: high rates of tax or complex rules	10.9%
Testing certification or approval procedures	32.8%
National specification requiring modifications	12.5%
Environmental regulations	6.3%
Health and safety regulations	15.6%
Language	10.9%
Security issues	12.5%

Therefore, if Malaysia is looking for trade negotiations with the GCC member countries, these particular issues need to be prioritised and well pursued. The major issue for an FTA, low taxes and duties, should not be a priority as the GCC member have already reduced their tariffs to below 5 percent for most of their import duties except for some restricted products such as alcohol and tobacco (as indicated in Appendix 11).

Previous analysis showed the obstacles faced by the Malaysian traders while they are doing business in the GCC countries. It is also worth looking into those particular issues and relating it to the respondents' business size. In this analysis, respondents' turnover is divided into two categories[40], namely small

[40] Respondents who do not revealed their annual sale turnover were omitted for this analysis.

medium enterprise (SMEs) and big companies (non-SMEs)[41]. Table 7-15 shows the distribution of firms' size that encountered problems while trading with the GCC countries. It can be seen that, SME firms are certainly facing all those problems. These problems include the GCC environmental regulation, security issues, GCC national specification, language issues, procedures to get testing certification for manufactured goods, difficulties to meet GCC countries health and safety regulations and issues on GCC tax and rules.

Table 7-15: Traders' obstacles to doing business in the GCC countries and company size (turnover)

Obstacles to business in the GCC / firm size	SMEs	Non-SMEs
Tax: high rates, complex rules	71.40%	0%
Testing certification or approval procedures	81.50%	9.50%
National specifications requiring modification	87.50%	12.50%
Environmental regulations	100%	0%
Health and safety regulations	80%	20%
Language	85.70%	14.30%
Security	87.50%	12.50%

Respondents who were unable to disclose their income were omitted.

7.3.2 Business growth potential in the GCC

The survey also attempts to find traders' (who trade in the GCC countries) business growth potential in the GCC market. Question B6 in the questionnaire was set to deal with this issue. From 1 (the lowest) to 10 (the highest), traders were requested to rate their trade potential in the Gulf region. Table 7-16 shows this potential. It shows that the majority of Malaysian traders believe their business in the GCC countries is promising. Almost 66 percent of the respondents rated their business growth in the GCC countries at more than

[41] According to the National SME Development Council (SMIDEC) definition on SME is divided by three categories, for agriculture, manufacturing and services. More details can be found in the appendix table A-5.1 and table A-5.2

6 (rating in the scale). This implies that traders are looking forward to the GCC market as a new trade destination and searching for opportunities in this emerging market.

Table 7-16: Traders' growth potential in the GCC market (traders' rating)

In rating between 1 - 10, what do you think is the growth potential of your business prospect in GCC countries? (1 = low, 10 = high)		
Rate	**Frequency**	**Percent**
1	6	9.4
2	2	3.1
3	3	4.7
4	3	4.7
5	12	18.8
6	9	14.1
7	10	15.6
8	9	14.1
9	6	9.4
10	4	6.3
Total	**64**	**100.0**

At the same time, although the majority of the respondents are classified as being from SME businesses, they tend to have a business venture with a GCC local firm. Of all respondents who have traded with the GCC, 54.1 percent would consider having a joint venture with a local firm; 6.6 percent show no interest and the rest are not sure about having as a business partner with a local firm (see Table 7-13).

Table 7-17: Traders' views on a business venture with a GCC local firm

		Frequency	Valid percent	Cumulative percent
Valid	Yes	33	54.1	54.1
	No	4	6.6	60.7
	Not sure	24	39.3	100.0
	Total	61	100.0	

When looking for the reason of this response and taking account the interview response of the Malaysian trade ambassador for GCC region in the UAE, we realised that the business nature in the GCC is very challenging particularly in meeting local people's confidence. It is said that local people do not have any particular interest in doing business with other countries except with western and US firms[42]. Malaysian traders who have successfully exported their goods to GCC countries attribute success to their good relations with a local firm or entrepreneurs in the country. Interestingly, according to the Malaysian trade ambassador, sometimes it takes more than two years to develop a close relationship with the local partner before any kind of business is concluded.

7.4 CHALLENGES FOR MALAYSIAN TRADERS IN PENETRATING GCC MARKET

The analyses in the preceding section discussed the traders' experiences in operating their businesses in the GCC countries. In this section, it looks into Malaysian traders who have little or no experience in dealing with their counterparts in the GCC countries. To this end, we shall explore these traders' problems in penetrating the market. The obstacles can be divided into two factors, firstly, the internal factor of a firm's ability to market its goods in the GCC and secondly, the external factors of security and regulations.

Table 7-18 shows that for Malaysians traders the main obstacle in penetrating the GCC market is poor promotion. Out of 70 respondents from inexperienced Malaysian traders with the GCC, 44.4 percent said that lack of promotion in the GCC market has been the main obstacle. It also can be said that, most of the traders do not have enough information regarding the trading opportunities which exist in the GCC market.

[42] Interview with Malaysian trade ambassador in UAE, 27 December 2008, Dubai

On the other hand, 28.6 percent of the respondents argued that shortage of capital is one of the drawbacks to entering the GCC market. Since the majority of respondents are from SME industries, there is no doubt why this issue becomes the second most important problem for the Malaysian traders trying to market their products in the Gulf countries. This can be seen in Table 7-19. Almost of the respondents who consider capital to be an important obstacle to penetrating the GCC market, come from SME industries.

Table 7-18: Obstacles to penetrating the GCC market

Obstacles	Percentage
Restrictive regulations	20.0%
Lack of promotion	44.3%
Exchange rates	11.4%
Lack of government support	20.0%
Language	28.6%
Security	24.3%
Lack of capital	28.6%

Interestingly, although the language barrier is not a big problem for those who have already been doing business with the GCC countries, it is now seen as an important factor that obstructs Malaysian traders from entering the market. Table 7-18 shows that 28.6 percent of the respondents consider language as a barrier to trading in the GCC countries.

What can be learnt from this is that much effort needs to be spent on promoting the Gulf markets to Malaysian traders. Although there is huge potential in the market as discussed in Chapter 3, participation, keenness, and support are distant elements to reality.

Thus, it is also important to analyse relationships between the sizes of company with penetrations' problems. An analysis of cross-tabulation between company backgrounds and market penetration barriers is presented in Table 7-19. It shows that traders from SMEs are seen to have more problems than

non-SMEs companies in capturing the Gulf markets. As mentioned above, lack of promotion in the market is the major issue the Malaysian traders not exporting their products to the GCC countries. This issue is widely recognised by half of the SME traders.

Moreover, among the traders in this group (Malaysian traders inexperienced with the GCC) almost one-third of them believe that issues of regional security, language, and lack of companies' resources are discouraging them from capturing and penetrating these high potential Gulf markets. Meanwhile, these issues seem not to bother the non-SMEs trading companies.

Surprisingly, non-SMEs traders believe that government support has been very low in order to encourage them to market their products in the GCC states. Although, this issue is not seen as a major problem by the SMEs traders, about 40 percent of the non-SME traders who are not doing business with the GCC countries identify this problem as one of the current barriers to trade with the GCC countries. Other problems, such as the regulative framework, promotion, language, security and sources of capital seem not to be a big problem for the Malaysian traders.

Table 7-19: Cross-tabulation between issues on GCC market penetration and company size.

Obstacles to penetrate GCC market / Firm	SMEs [a]	Non-SMEs (%)[a]
Restrictive regulations	23.2 %	00.0 %
Lack of promotion	48.2 %	20.0 %
Exchange rates	12.5 %	20.0 %
Lack of government support	16.1 %	40.0 %
Language	28.6 %	20.0 %
Security	30.4 %	00.0 %
Lack of capital	28.6 %	00.0 %

Respondents who were unable to disclose their income were omitted.
[a] The percentage is calculated within the firm's size group with respect to the issues raised.

Although there are several issues that concern Malaysian traders in their attempts to penetrate the GCC market, in the long term they are also highly

interested to export their products there. This can be seen from Table 7-17, 71 percent of the inexperienced traders are planning to export their goods into the GCC countries.

Table 7-20: Inexperienced traders' planning to exports their products into the GCC countries.

Planning to export	Percent	Valid percent	Cumulative percent
Yes	71 %	71.0 %	71.0 %
No	8.7 %	8.7 %	79.7 %
Not Sure	20.3 %	20.3 %	100.0 %

Source: Business survey on Malaysian Traders' perception towards the GCC markets, November 2008 – January 2009

It is believed that there are several reasons that are leading inexperienced traders to become more positive toward the GCC market. Factors such as logistic facilities, financial facilities, political stability, and demand for their products in the GCC market certainly attract them to become players in the Gulf countries. In order to analyse this proposition, question C2.1 (GCC market attractiveness) is analysed and crosstabulated with question C.4 (planning to trade).

Table 7-21 shows why GCC markets are seen as potential markets for the inexperienced Malaysian traders. It is observed that the traders seem to be uncertain over the GCC market circumstances from either the facilities provided or the current political situation. However, they certainly confirm that there is demand for their goods in the market. In terms of logistic facilities, more than half of the inexperienced traders (55.71 percent) are not sure of the range and quality of logistic facilities in GCC countries. This broadly reflects traders' perception on the political situation in the GCC countries. Among them, 47.14 percent remain unsure about the situation in the Gulf region and almost 10 percent disagree that political stability in these countries attracts them to do business with them.

Nevertheless, the majority (around 58.51 percent) agree that the GCC countries have outstanding and attractive financial institutions and facilities in the region and this makes doing business in the region attractive. As mentioned earlier, a quite significant number of the traders (57.14 percent) agree that demand for their products in the market may attract them to trade with the GCC countries.

Table 7-21: The attractiveness of GCC markets of inexperienced traders.

Factors	Strongly Disagree	Disagree	undecided	Agree	Strongly Agree
Excellent logistic facilities		2.86%	55.71%	37.14%	4.29%
Excellent financial facilities	1.43%		40.00%	52.86%	5.71%
Political stability	1.43%	8.57%	47.14%	38.57%	4.29%
Huge demand for my business	2.86%	5.71%	34.29%	47.14%	10.00%

It is worth discussing here relationships between the traders' confidence towards the GCC market and their willingness to trade with the GCC countries. This can be assessed by cross-tabulating between Table 7-20 (question C4 - My company is planning to exports our product to GCC countries in the future) and Table 7-21 (question C2.1- Based on the above question, please give your opinion on the following statements as to why the Gulf Cooperation Council countries are attractive for doing business with because, a) excellent financial facilities in the country; b) political stability in the country; and c) huge demand for my business in the country). The analysis of the chi-square is taken out and presented in Table 7-22 a – c.

Table 7-22: Cross-tabulation between inexperienced Malaysian traders' perception towards the GCC countries and their willingness to trade with them.

a) Financial facilities

Planning to export to the GCC countries	Excellent financial facilities in the country			
	Disagree	Neutral	Agree	Strongly agree
Yes	1.4 %	36.2 %	29.0 %	4.3 %
No		7.2 %	1.4 %	8.7%
Not sure	1.4 %	11.6 %	7.2 %	

Chi-Square: 0.038

b) Political stability

Planning to export to the GCC countries	Political stability in the country				
	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Yes	1.4 %	5.8 %	30.4 %	29.0 %	4.3 %
No			5.8 %	2.9 %	
Not sure		2.9 %	10.1 %	7.2 %	

Chi-Square: 0.054

c) Demand for their products

Planning to export to the GCC countries	Market for their products				
	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Yes	2.90 %	4.35 %	20.29 %	33.33 %	10.14 %
No			7.25%	1.45%	
Not sure		1.45%	7.25%	11.59%	

Chi-Square: 0.054

The responses produced mixed results as can be seen in Table 7-22 a – c, where it can be said that traders' attitudes towards the GCC countries and their own planning to trade remain uncertain, and various responses given. Table

7-22 a), for example, shows that, although the traders are interested to trade in this region, they are unhappy over the financial facilities in the country. In contrast, however, almost 9 percent, which is quite significant number of traders who are not planning to export to the GCC, agree that there are excellent financial facilities in the country.

In addition, traders who see the current political situation in the region as rather uncertain, 37.6 percent of them are willing to expand their business in the region. It is also interesting to note that 43.47 percent of the inexperienced traders who believe that there is a potential market for their products are planning to be future players in the market. Moreover, there is a considerable number of traders who have no plans and are not sure about exporting their goods. 7.25 percent and 8.7 percent actually believe there is no potential market for their products there. It can, therefore, be concluded that, these traders are not ready to expand their businesses and are not considering becoming involved in marketing their products in the GCC countries.

Table 7-23: Respondents' activity background and their planning to export to GCC countries.

Sector	Traders' planning to trade with the GCC countries			
	Yes	No	Not sure	Total
Manufacturing	43.48%	4.35%	11.59%	59.42%
Oil/Gas/Petrochemicals	1.45%			1.45%
Services	10.14%	1.45%	5.80%	17.39%
Agriculture and Foodstuffs	4.35%	1.45%	1.45%	7.25%
Retail/Wholesale	7.25%	1.45%		8.70%
Total	71.01%	8.70%	20.29%	100.00%

Chi square: 0.031

From the above discussion, it can be said that huge efforts need to be made specifically trade promotion as well as trade financing, to promote trading between these countries.

In relation to the above, it is also important to discuss here the traders' economic backgrounds in relation to their planning of exports to the GCC countries. Perhaps, this may explain future trends of Malaysian traders, specifically on industrial prospects, towards the GCC countries. Table 7-23 depicts cross-tabulation analysis between these matters and shows that the manufacturing sector remains the most significant industry that is willing to expand business in the GCC countries. It accounts for 43.48 percent of the total prospect traders and is followed by the services sector which accounts for 10.14 percent.

7.5 ASSESSING THE STATISTICAL DIFFERENCES ON PERCEPTIONS TOWARDS GCC COUNTRIES/MARKETS

In section 7.3 and 7.4, discussion on traders' motivations and their perceptions on the GCC countries were clearly explained. However, it is also useful to examine whether the traders' stance towards GCC countries is statistically different between the two groups, namely the experienced and the inexperienced traders. For this, the Mann-Whitney U[43] test was used to provide statistical insight into these relations[44].

The results are depicted in Table 7-24 and Table 7-25. They reveal that the inexperienced traders perceptions (mean=3.43) did not seem to differ with the experienced traders' stance (mean=3.53) towards 'excellent logistic facilities' provided in the GCC. U=2011.0 was not significant, as the estimated test result is above the critical level (0.252).

In terms of perceptions towards the financial facilities provided in the GCC countries, the test produced the same result where the inexperienced traders mean is 3.61 and the experienced traders' mean is 3.67, with U=2128.0,

[43] The Mann-Whitney test is used to test the null hypothesis (H_0) according to which 2 independent samples were drawn from the same population (or identical populations). In this case, two groups (experienced and inexperienced traders)

[44] This test is chosen because the data does not meet the parametric assumptions in order to run T-Test. Experienced traders normality test D(64), inexperienced traders normality test $p<.05$,D(70),$p<0.05$ (for all items)

and, hence, is not significant r= - 0.05. The result also mirrors the traders understanding towards political stability in the region. There is no statistical difference between the two groups on their stance towards the political situations in the GCC countries, inexperienced traders (mean=3.45) and experienced traders (mean=3.55) with U=1935.0, not significant, as the estimated test result (0.134) is higher than the critical value (0.05).

It can be said that both groups have positive perceptions towards the GCC countries specifically in terms of the facilities provided and political stability in the countries; and therefore it can be concluded that there is no statistically significant difference between the two groups.

Table 7-24: Table of ranks on two groups' perception towards the GCC market

Itemisation	Group	N	Mean Rank	Sum of Ranks
Excellent logitistic facilities provided	Experienced traders	64	71.08	4549.00
	Inexperienced traders	70	64.23	4496.00
	Total	134		
Excellent financial facilities provided	Experienced traders	64	69.25	4432.00
	Inexperienced traders	70	65.90	4613.00
	Total	134		
Political stability	Experienced traders	64	72.27	4625.00
	Inexperienced traders	70	63.14	4420.00
	Total	134		

Table 7-25: Mann-Whitney U Test Statistics [a]

	Excellent logistics	Excellent financial facilities	Political stability
Mann-Whitney U	2011.000	2128.000	1935.000
Wilcoxon W	4496.000	4613.000	4420.000
Z	-1.145	-.572	-1.500
Asymp. Sig. (2-tailed)	.252	.567	.134

a. Grouping Variable: TRADERS

7.5.1 Traders' opinions towards the Malaysia-GCC Free Trade Agreement proposal

One of the objectives of this study is to explore Malaysian traders' opinions regarding the Malaysian government's initiative for a free trade agreement with the GCC countries. This proposal has been suggested since

2007 when the Minister for Trade and Investment (MITI), Rafidah Aziz, first put forward this suggestion (Bernama, 2007) and has also been echoed by the next Ministries of MITI (Rafique, 2009, Basit, 2010). Affirmatively, the previous Prime Minister Abdullah Ahmad Badawi revisited the proposal when he toured the GCC countries in January 2009. His successor, Najib Razak, repeated the proposal later in the year with the GCC countries (Arab News, 2009).

However, to date, there has not been much progress concerning the FTA proposal between Malaysia and the GCC. Nevertheless, Malaysia's neighbour, Singapore, had now concluded free trade agreement (FTA) with the GCC countries in 2008 and became the first country to have the trade pact (Khaleej Times, 2008). In fact, Singapore also hopes that, other ASEAN countries will follow the country to have trade pact with the GCC in order to strengthening ASEAN's relations with the Arab Gulf countries as stressed by its Foreign Minister (Tamimi, 2010). Issues on this progress will be precisely discussed in the interview analysis.

Therefore an insight into the Malaysia-GCC FTA proposal on the Malaysian traders' point of view would certainly be useful in order to accelerate trade expansion, particularly with the Gulf and Middle Eastern, generally. Question B9 and C8 in the questionnaire are explicitly designed to discover respondents' opinions about this idea.

Table 7-26 - Table 7-28 show Malaysian traders' views of a Malaysia-GCC FTA. From the tables, it can be said that high proportion of Malaysian traders are looking forward to the Malaysia and GCC trade proposal. Table 7-26, for example, depicts that almost 68.66 percent of Malaysian traders are keen on the idea of an FTA with the GCC, whereas only 2 percent are not interested in the idea. Nevertheless, 29.10 percent of Malaysian traders remain undecided about this issue.

Looking into their understanding about the positive impact on an FTA between Malaysia and GCC, again a similar trend with the above statement

occurs. It suggests that a high proportion of respondents believe that the implementation of an FTA with the Gulf countries would more or less increase trade volumes between those countries.

Table 7-26: Our business is looking forward to an FTA between Malaysia and GCC countries

Preferences	Frequency	Percent	Valid Percent
Strongly Disagree	2	1.49	1.49
Disagree	1	0.75	0.75
Neutral	39	29.10	29.10
Agree	76	56.72	56.72
Strongly Agree	16	11.94	11.94
Total	134	100	100

Table 7-27: An FTA between Malaysia and GCC countries will increase trade between the countries

Preferences		Frequency	Percent	Valid Percent
	Strongly Disagree	3	2.24	2.24
	Disagree	4	2.99	2.99
	Neutral	32	23.88	23.88
	Agree	77	57.46	57.46
	Strongly Agree	18	13.43	13.43
Total		134	100	100

Table 7-28: Implementation of an FTA between Malaysia and GCC countries will increase Malaysian businesses competitiveness in the Gulf region

Preferences		Frequency	Percent	Valid Percent
	Strongly disagree	0	0	0
	Disagree	0	0	0
	Neutral	65	48.51	48.51
	Agree	58	43.28	43.28
	Strongly Agree	11	8.21	8.21
Total		134	100	100

On the other hand, the traders' views on Malaysian companies' competitiveness in the GCC countries is also examined by asking them question B.9.c and C.8.c. Table 7-28 shows that more than half of the respondents definitely agree that Malaysian companies will be more competitive in doing business in the Gulf region in a free trade agreement. Meanwhile, although, there is no disagreement on this statement, a high proportion (48 percent) of the respondents is unsure whether an FTA will increase competitiveness.

Since this study is divided into two groups, experienced and inexperienced traders with the GCC, further analysis of cross-tabulation and statistical differences between the two groups are critically important to have in-depth understanding on this issue. Table 7-29 shows how each group of traders reflects on the proposal of an FTA between the two parties. Table 7-29 reveals that a high proportion of experienced traders favour this whereas a huge percentage of inexperienced traders are neither interested nor disagree with such a proposal.

Table 7-29: Cross-tabulation between traders' group and a free trade agreement proposal

Our business is looking forward to FTA between Malaysia and GCC countries						
Traders		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Experienced	Count	0	0	17	39	8
	Row %	0.00	0.00	26.56	60.94	12.50
	Column %	0.00	0.00	43.59	51.32	50.00
	% of Total	0.00	0.00	12.69	29.10	5.97
Inexperienced	Count	2	1	22	37	8
	Row %	2.86	1.43	31.43	52.86	11.43
	Column %	100.00	100.00	56.41	48.68	50.00
	% of Total	1.49	0.75	16.42	27.61	5.97

In terms of differences between these two groups, Table 7-30 and Table 7-31 show there is no significant difference between experienced and inexperienced traders' views on a Malaysia-GCC FTA proposal. This can be seen

from the Mann-Whitney U test in Table 7-31. Table 7-30 and Table 7-31 suggest that inexperienced traders (mean=3.86) did not seem to differ in their attitude towards the FTA proposal from the experienced traders, as the mean value is 3.68 with U=1998 not being significant, r= -0.10.

Thus, it can be concluded that both traders' group, experienced Malaysian traders and inexperienced Malaysian traders with the GCC are highly interested in seeing the implementation of a free trade agreement between Malaysia and GCC member countries.

Table 7-30: Table of ranks on two groups' opinion towards the FTA

Statement	Traders	N	Mean Rank	Sum of Ranks
Our business is looking forward for a FTA between Malaysia and GCC countries	Experienced traders	64	71.28	4562
	Inexperienced Traders	70	64.04	4483
	Total	134		

Source: Survey on Malaysian Traders' perception towards the GCC markets, November 2008 – January 2009

Table 7-31: Mann-Whitney U Test Statistics [a]

	Our business is looking forward for a FTA between Malaysia and GCC countries
Mann-Whitney U	1998
Wilcoxon W	4483
Z	-1.21
Asymp. Sig. (2-tailed)	0.23

[a] Traders' groups

Source: Survey on Malaysian Traders' perception towards the GCC markets, November 2008 – January 2009

7.6 DETERMINING MOTIVATIONAL FACTORS FOR DOING BUSINESS WITH THE GCC: FACTOR ANALYSIS

In the preceding sections, motivational factors are discussed in detail in terms of factors that lead Malaysian businessmen to trade in the region. In this section, in order to further investigate the motivational factors, factor analysis is utilised for inferential statistics.

Factor analysis is a technique for identifying groups or clusters of variables (Field, 2005). In other words, it used to reduce a large number of variables to a smaller set of underlying factors that summarise the essential information contained in the variables (Pallant, 2004). Field (2005) emphasise that the factor analysis technique can be applied in one of three main uses: firstly, to understand the structure of a set of variables; secondly to construct a questionnaire to measure an underlying variable, and finally to reduce a large data set into more manageable size while retaining as much of the original information as possible. Thus, factor analysis is utilised in this section to reduce a data set into a smaller set by retaining the original information.

According to Field (2005), prior to undertaking factor analysis, there are two initial considerations that need to be taken into account. The first is sample size and the second is data screening.

To assess the suitability of the data, it is suggested to look at the sample size and the strength of relationship among the variables. Generally, the larger the sample, the better should be the analysis. The common rule is to suggest that a researcher has at least 10-15 participants per variable. Tabachnick & Fidell (2001) in Field (2005: 640) recommended that at least 300 cases for factor analysis while Comrey & Lee (1992) in Field (2005: 639) suggested 300 respondents as a good sample size, 100 as poor and 1000 as excellent. However, according to Pallant (2004: 175), a sample size of 100 is acceptable, but one of 200 or above is preferable. For the purpose of this research, the size of sample that was used was 134, which is acceptable. Alternatively, Field (2005: 639) suggested that the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy could also be used to assess the factorability of the data.

As for data screening, Tabachnick and Fidell (2001) in Pallant (2004), recommended an inspection of the correlation matrix for evidence of coefficients greater than 0.3. If few correlations above this level are found, then factor analysis may not be appropriate. On the other hand, Field (2005: 641)

has given an alternative in assessing the inter-correlation between variables. He suggested that the easiest way of screening the data is by scanning the significances value and looking for any variable for which the majority of values are greater than 0.05. Then scan the correlation coefficients themselves and look for any greater than 0.9.

The next step involves factor extraction, which determines the smallest number of factors that can be used to best represent the data or the interrelations among the sets of variables (Pallant, 2004: 174, Coakes, 2005: 154). In conducting a factor analysis, it can be said that there are several ways and methods depending on numerous things (Field, 2005: 643). However, for the purpose of this study, factor analysis is conducted using principal component analysis (PCA) as suggested by Field (2005: 644), Pallant (2004), and Foster (1998). Specifically, the PCA is concerned with specifying a number of factors to account for the maximum amount of variance in the data.

The factor extraction process starts with determining the linear components within the data set by calculating the eigenvalues[45] in order to retain or discard any particular factors. Amongst the techniques that were used to help in deciding on the number of factors to retain are the Kaiser's criterion[46] and the Catell's scree test[47]. Kaiser's criterion suggests retaining all factors with eigenvalues of 1.0 or greater than 1.0.

According to Pallant (2004), the eigenvalues of a factor represent the amount of the total explained by that factor. The second technique, scree plot which is suggested by Catell (1996) in Pallant (2004), involves plotting and

[45] Eigenvalues are the variances of the factors. In conducting this process, the calculation is automatically done by the SPSS software.

[46] Kaiser Criterion is commonly used method for selecting the appropriate number of principles components. The eigenvalues for all principle components *i* divided by the sum of eigenvalues for all principles components equals the percent of contribution of principles component to the total variability.

[47] Scree test in an alternative method of deciding how many factors should be retained in the factor analysis. It was suggested by Raymond B. Cattell (1996). In this test, each of the eigenvalues of the factors are plotted and inspected. All factors above the break in the plot or elbow are retained. This is so because these factors contribute the most to the explanation of the variance in the data set (Pallant, 2004).

inspecting each of the eigenvalues of the factors. All factors above the break in the plot or elbow are retained. This is because these factors compose most of the total variance explained in the data set. Many suggest that the scree test is a more reliable way of determining factors (Miller et al., 2002: 179).

Finally, the determinant factors that have been extracted need to be interpreted. The easiest way to do this process is by rotating the factors (this can be done by SPSS). Indeed, Field (2005: 644) suggested that by rotating the factors, the interpretability of factors can be improved. In order to help the interpretation process, the loading of each variable on one of the extracted factors is firstly maximised. This is followed by minimizing the loading on all other factors. This process will determine which variables relate to which factors.

There are two main methods of performing the rotation, either by using uncorrelated (orthogonal) or correlated (oblique) factor solutions. The choice depends on the researcher's assumption of whether or not the underlying factors should be related (Field, 2005: 644). In this analysis, we have selected orthogonal rotation (varimax) as there is no correlation between the underlying factors. Once the rotation has been performed, the variables are then loaded and clustered onto the same factor according to the size of their correlations. Factor analysis in this section, as mentioned above, is aimed at exploring the motivations of Malaysian businessmen to do business with GCC countries. This was carried out on seven items in question B2.1 from the questionnaire by using SPSS Version 11.5.

Table 7-32: KMO and Bartlett's test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.724
Bartlett's Test of Sphericity	Approx. Chi-Square	91.595
	Df	21
	Sig.	.000

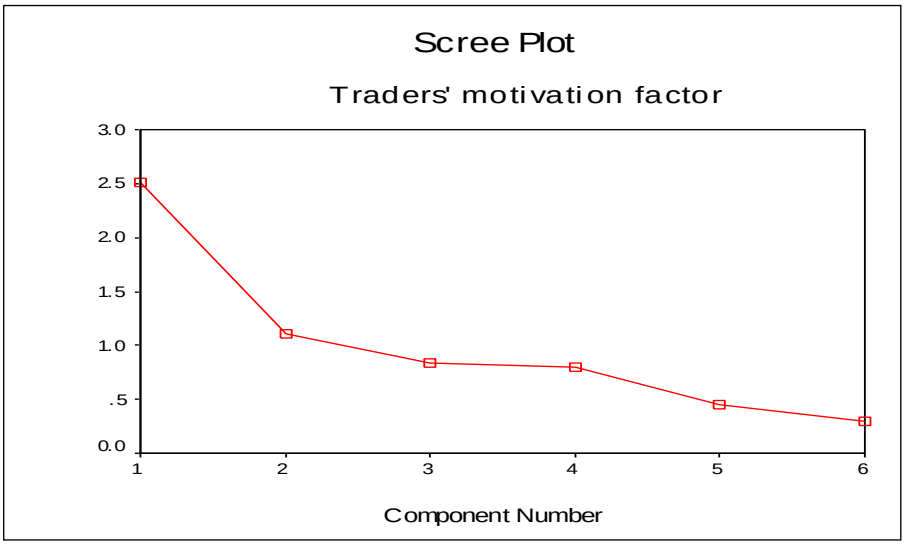
An initial consideration that includes sample size adequacy and data screening was made and an inspection of the correlation matrix revealed the

considerable number of coefficients above 0.3. The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy is also above 0.6[48]. Table 7-32 shows it at 0.724. The Barltett test of sphericity is also significant; therefore, it is appropriate to run factor analysis.

Referring to Table 7-33, there are two factors with Eigenvalues greater than 1 (2.512 and 1.104). This initial analysis, therefore, resulted in a two-factor solution. That is, these six items can be simply reduced to two factors (namely GCC related factor and Malaysia related factor). Each factor explains a particular amount of variance in the items. In this case, Factor 1 explains 41.86 percent and Factor 2 explains 18.396 percent of the variance. Together these two factors explain a total of 60.26 percent of the variance. The more variance that is explained by the factors, the better the factor solution is in reducing the initial six items to two factors.

The scree plot in Figure 7-2 depicts that the plot slopes downwards and that there are two factors above the break. From this it was decided to retain two factors for further investigation. Varimax orthogonal rotation was used in order to aid interpretation of these two factors.

Figure 7-2: Scree plot for the experienced traders' motivations



[48] Further detail on the calculation of the KMO and Bartlett test are in the Appendix 14.

Table 7-33: Total variance explained on the motivation for doing business with GCC countries among the experienced traders

Component	Initial Eigenvalues			Extraction sums of squared loadings			Rotation sums of squared loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.512	41.861	41.861	2.512	41.861	41.861	2.297	38.286	38.286
2	1.104	18.396	60.257	1.104	18.396	60.257	1.318	21.971	60.257
3	0.842	14.028	74.285						
4	0.794	13.238	87.523						
5	0.446	7.435	94.958						
6	0.303	5.042	100.000						

Extraction Method: Principal Component Analysis

The rotated solution in Table 7-34 reveals the presence of two factors with a number of strong loadings. Variables with a factor loading of at least 0.4 would be considered significant and can be said to belong to the component. The two factor solutions explain a total variance of 60.257 %, with Factor 1 contributing 38.286 % and Factor 2 contributing 21.971 %.

Table 7-34: Rotated Component Matrix[a] for the experienced traders' motivations to trade with the GCC countries

Itemisation	Component	
	GCC related factor	Malaysia related factor
B.1.1e - There is no language barrier	0.840	
B.1.1a - Excellent logistic facilities in the country	0.818	
B.1.1b - Excellent financial facilities in the country	0.814	
B.1.1c- Political stability in the region	0.489	0.305
B.1.1d- Malaysian government has strong relationship with the country		0.770
B.1.1g- Religious affinity		0.701
Eigenvalue	2.512	1.104
% of Variance	38.286	21.971
Cumulative %	38.286	60.257

Extraction method: Principal component analysis
Rotation method: Varimax with Kaiser Normalisation
[a]Rotation converged in 3 iterations.

From Table 7-34, it can be seen that, the main loadings on component 1 are items B.1.1e, B.1.1a, B.1.1.b, and B.1.1.c. It can be referred to as the GCC-related factor. The main items on the second component (B.1.1.d, and B.1.1.g) can be identified as the Malaysia-related factor. This implies that experienced Malaysian traders in GCC countries generally trade with the GCC countries due to the excellent GCC facilities provided. In fact, acceptance of communication among the traders in the GCC countries (language) which has been identified as

an external factor becomes a major component for the first factor. This finding is very much in resonance with the earlier findings from the cross-tabulation results that language is not a real hindrance to trading with the GCC countries and the traders are satisfied with the facilities provided in the region.

7.7 CONCLUSION

This chapter has examined the responses to the questionnaire survey by using different approaches and statistical analysis. The analyses were chosen because of their appropriateness in analysing the issues raised. For example, in factor analysis, it was chosen in order to extract the motivational factor that influenced the Malaysian trader in doing trade with the GCC countries.

From the analysis, several conclusions have been drawn. One of the main findings is that Malaysian traders believe the current strong political relationship with all the Arab Gulf countries has led to strong trade and commerce relationships. Thus, this factor has motivated them to have close business relationship with their counterparts in these countries. Although both Malaysia and the GCC member countries are Muslim countries and member of OIC, the survey shows that religious affinity does not contribute to traders' motivation to trade in the gulf. Given the strong present of Chinese merchants in Malaysia, however, this finding is not surprise since their motivation in doing business is not influenced by the religious factor. According to Economic Development Unit (2008), Bumiputera (mostly Muslim) companies only own 19.4 percent of total equity in Malaysia while non-Bumiputera own 43.9 percent and Chinese business own 42.4 percent of total equity in Malaysia[49]. The remaining percentage (36.7 percent) is international business equity. This certainly shows the dominance of non-Muslim businesses in Malaysia particularly Chinese businesses.

[49] The equity here means, ownership of active listed companies that registered with *Suruhanjaya Syarikat Malaysia* (SSM) (The Companies Commission of Malaysia)

It is also interesting to note here that traders with different backgrounds have their own particular views on GCC countries. Retailers and wholesalers, for example, found that tax rates in GCC countries are high, despite their rates being around 0 – 5 percent for all products except tobacco and alcohol. Oil, gas, and petrochemical-based businessmen agree that the GCC countries provide excellent logistic facilities. Nevertheless, manufacturing and construction-based traders were not satisfied with the facilities. It is interesting to underline here that, the broad views of Malaysian traders towards the GCC markets can be divided into two main categories, namely GCC related factors, and Malaysia related factors.

In terms of challenges and obstacles for Malaysian traders to expand their business in GCC, it is obvious that testing certification, approval procedures and health and safety regulations have been major challenges for Malaysian traders to meet the GCC requirements. On the other hand, in terms of information on GCC countries, inexperienced traders obviously have little knowledge about the GCC markets. Minimal trade promotion and market information have been obstacles for the traders to expand their trade in the Gulf.

Despite the challenges and obstacles, most of the Malaysian traders would be very pleased to expand their business in the GCC countries. There are also significant numbers of them who are greatly looking forward to a business venture with a GCC local firm.

As a main finding of this survey, it is important to conclude here that Malaysian traders' views on a Malaysia – GCC FTA are very warmth. It is found that the experienced traders are more interested on the proposal than the inexperienced traders. The idea of having an FTA between these countries is most welcomed in order to expand business.

In summary, many of the findings of the survey can be used by policy-makers as well as Malaysian traders in promoting and improving penetration of the GCC market. It is also important to state that several issues related to the Arab Gulf countries need more attention from their authorities in attracting more Malaysian business to the region.

Chapter 8 EXPLORING MALAYSIAN OFFICIAL PERCEPTIONS ON GCC TRADE: INTERVIEW ANALYSIS

8.1 INTRODUCTION: INTERVIEW WITH MALAYSIAN TRADE OFFICERS AND TRADE AUTHORITIES

Chapter 6 provides a quantitative analysis of establishing the competitive advantage of Malaysia in its trading relationships with the GCC member countries. Chapter 7 provides further evidence on the issues related to this trade by exploring the perceptions of the Malaysian businessmen through a questionnaire analysis with mainly quantitative techniques. This chapter aims at developing the research further by analysing the perceptions of Malaysian officials through semi-structured interviews on the issue of Malaysia's economic relations with the Arab Gulf Countries. It should be noted that all the interviews were carried out during fieldwork in Malaysia and Dubai between October 2008 and January 2009.

Two sets of interviews were undertaken with those would be able to answer questions on Malaysia's trade and economic relations with the GCC, namely with policy makers and trade associations. After some consideration and careful selection, we managed to conduct four interview sessions with Malaysia's trade authorities, two with trade associations and one with a Gulf research analyst.

Interviews were conducted with the members of the following Malaysian authorities: the Ministry of Trade and Investment (MITI), West Asia / Africa Section, the Malaysia External Trade Development Corporation (MATRADE, Malaysia), the trade commissioner, Malaysia Trade Centre at Dubai (MATRADE, Dubai), and Malaysian Consul Investment (MIDA, Dubai).

The trade association members interviewed were from the Malaysian Timber Council (MTC) and the Gulf-ASEAN Economic Council (GAEC), based in

Kuala Lumpur. In addition, we also conducted interviews with an Asian-GCC economic expert based in the Gulf Research Centre, Dubai.

As can be seen from the interview schedule in Appendix 8, a total of eleven questions were posed regarding Malaysia and GCC economic and trade relations including the ways for doing business in the GCC and other related, issues and challenge which will be analysed by using qualitative analysis. These questions are then divided into several important codings. From the finding of the coding analysis, five major themes were derived and segmented as follows:

1. The importance of the GCC market for Malaysian businesses and the economy
2. Perceptions of doing business in the Arab Gulf market
3. Strategies to penetrate this new emerging market
4. Main issues and challenges in strengthening trade and economic relations with the GCC countries
5. A Free Trade Agreement (FTA)

As can be seen in the following sections, the interview questions were summarised by thematic analysis and coding through which a systematic presentation of the finding was achieved. This analysis has been manually taken out rather than by utilising particular software. The thematic codes were then interpreted for clarification.

8.2 THE IMPORTANCE OF THE GCC MARKET FOR MALAYSIAN ECONOMY

This section analyse the results in relation to the contribution of the GCC market and economy to Malaysian economic development and importantly to trade relationships. Table 8-1 shows the findings from the first interview question. It was categorised into four main coding, namely: the advantage of a religious affinity to expanding business relation; the GCC as a growing market in the Middle East; the importance of the GCC market and its contribution to the

Malaysian economy; and the importance of the financial market and opportunities for the manufacturing sector.

The finding from question 1 shows the importance of the GCC market for the Malaysian economy. It can be said that being a Muslim country gives an advantage to Malaysian businesses to grow in the Gulf region. Importantly, three major sectors, real estate investment, the financial and the manufacturing sectors are identified as growing industries in this region. In these three sectors there seem to be opportunities for the Malaysian government as well as investors and traders to expand their economic and business ties.

Table 8-1: Results for Question 1 (identifying the importance of the GCC market for Malaysian business)

Question 1:	**Malaysia and GCC countries are the members of the Organisation of Islamic Countries (OIC) and one of the OIC objectives is to enhance their economic relations. Having said that, what do you think about the GCC market and efforts to strengthen the relationship?**
Focused coding	
1	Religious affinity gives an advantage to expand business relations
2	The GCC as a growing market in Middle East
3	The importance of the GCC market and its contribution to the Malaysian economy
4	The importance of the financial markets
Themes	Being a Muslim country gives an advantage to Malaysian businesses to grow in this new emerging market in the Middle East and in several sectors such as the financial markets, manufacturing, and real estate investment have been identified as key factor for Malaysian business to explore.

Table 8-2 provides the opinions of the interviewees on the first focused coding of the first theme; that is the impact of religious affinity on GCC – Malaysian business relationships.

Table 8-2: Focused coding number 1 for Question 1 (Religious affinity gives an advantage to expand business relationships)

Religious affinity gives an advantage to expand business relationships	
Interviewee 1	Arab people do not care about Islamic affinity when doing business; however, we may take advantage on it.
Interviewee 2	Religion does not affect Malaysian traders, religion does not influence businessmen's perceptions. Nevertheless, religious affinity remains special for this relation.
Interviewee 3	Each GCC country has a different importance to Malaysia, e.g., Saudi Arabia = centre for Muslim world, Hajj.
Interviewee 6	Malaysia is seen as a successful Muslim country. This attracts Arab people to do business.
Interviewee 7	Solidarity in Islamic values encourages economic and trade relations

According to the responses given by all the interviewees, as can be seen in Table 8-2, most of them emphasise that belonging to a Muslim country, in one way or another, encourages them to grow their businesses. However, it also can be said that solidarity among Muslim countries is rather a perception that may help to strengthen the relationships.

Table 8-3: Focused coding number 2 for Question 1 (GCC as a growing market in Middle East)

The GCC as a growing market in Middle East	
Interviewee 1	The GCC market is a trade gateway in the region.
Interviewee 2	This is an important market for us.
Interviewee 3	In terms of trade, the GCC becomes a regional hub for re-exporting
Interviewee 4	Investment in real estate and financial services is growing in the GCC countries.
Interviewee 5	The UAE is an attractive market for Malaysian timber exporters as there are huge demands for these products as new offices, houses etc are under construction.
Interviewee 6	Economic diversification in the Gulf countries creates huge economic potential for investors.

Table 8-3 shows the views of the interviewees on the GCC market. They strongly believe that the GCC countries' economies are growing, and

importantly are becoming a gateway for Malaysian products in the Middle Eastern and North African (MENA) region. The reason why it has become the re-export hub for the regions is because import duties are low compared to other countries in the MENA region. Dubai, in the UAE especially has become an entree-port for Malaysian business to capture the MENA market.

Opportunities for trade in the investment sector, especially in real estate and financial services, are growing in the GCC countries. This offers huge opportunities for Malaysian companies to take part in this development. In fact, some Malaysian expatriate and investors for example, have already been working and investing in this region. At the same time, rapid growth in building construction in the Gulf has that also created demand for interior design on which a number of Malaysian companies are focusing.

Table 8-4: Focused coding number 3 for Question 1 (The importance of the GCC market and its contribution to Malaysian economy)

The importance of GCC market and its contribution to the Malaysian economy	
Interviewee 1	New markets for Malaysian exports – Malaysia's trade diversification strategy
Interviewee 2	New markets for Malaysian banking and finance and property sector
Interviewee 4	Source of funds for Malaysian economic development – in real estate and financial services.
Interviewee 5	Malaysia is well positioned in the GCC market
Interviewee 6	Strong relationships with the countries in the region

Since economic diversification has taken place in most of these Arab oil-rich countries (as discussed in Chapter 3), some sectors, such as manufacturing (petrochemical related products), the food-related industries and Islamic finance services, are growing and Malaysia has long experience that it could share with them.

Table 8-4 shows the interviewee's opinion on the importance of the GCC market and its contribution to strengthening trade relations with Malaysia.

These responses demonstrate that the new emerging economies in the Gulf region are becoming important for Malaysia especially as a trading partner and source of investment. Table 8-4 shows that the interviewees identified a number of reasons which have led to the importance of this market for Malaysian traders. These reasons are: first, Malaysia is diversifying its trade strategy, product wise and country- partner wise. The UAE particularly is one of the new markets for Malaysian products. Second, the GCC market has also become a target for Islamic banking products and services. Both, Malaysia and the GCC bloc are promoting this new growing industry. Third, with such an oil and money abundant country, Malaysian investors are also seeking a partnership in this region. In this matter, Malaysia has successfully attracted foreign direct investment (FDI) from this region, although it is not too huge. However, interestingly, in 2003, the UAE was the biggest investor of Malaysian FDI with a total of RM 3,951,774,220 (USD 1,129,078,349) which amounted to 25 % of total FDI for the year (see appendix). Fourth, Malaysia has strong political relations with these countries, which helps to penetrate the GCC market.

Table 8-5: Focused coding number 4 for Question 1 (The importance of the financial market)

The importance of the financial market	
Interviewee 1	Huge potential in Islamic finance sector
Interviewee 2	Lot of promotion in Islamic finance services by Bank Negara Malaysia (BNM) and Malaysian Islamic Finance Council (MIFC)
Interviewee 3	Cooperate together in strengthening Islamic financial sector

Focused coding number 4 in Table 8-5 reveals the interviewees' opinions on the importance of financial markets in the GCC countries. Dubai especially, has become a financial hub in the Middle East and ranks 21st in the

2009 Global Financial Centres Index (GFCI) (Mark Yeandle, 2009)[50]. Indeed, this new development and the fast growth in Islamic banking and finance in the industry requires many specialist workers which Malaysia can directly contribute, as Malaysia has been developing this industry for almost 20 years. Thus, as can be seen from Table 8-5, cooperation in strengthening the Islamic financial sector is vital, although both Kuala Lumpur and Dubai seem to be competing with each other to become the global centre for Islamic finance.

8.3 DOING BUSINESS IN THE ARAB GULF COUNTRIES

The preceding chapter discussed traders' perceptions towards the GCC market and it was noted that Malaysian businessmen are very keen to expand their business in this region. This perception was also explored with the interviewees as well and the coded results are presented in Table 8-6.

Table 8-6: Results for Question 2 (Overview of doing business in the Arab Gulf market)

Question 2:	**How active are Malaysian businessmen in GCC countries?**
Focused coding	
1	New emerging market for Malaysian exports
2	Perceptions of the Arab people
3	Islamic finance development
Theme	Obviously, the GCC market is becoming important for the Malaysian economy as an alternative market for Malaysian products. Besides that, there is a highly positive perception of the Malaysian trader by the Arab people.

Table 8-6 shows a number of reasons that can encourage Malaysian authorities as well as traders and investors to expand an economic and commercial network in the Arab Gulf market. It is believed that, this market is becoming important for the Malaysian economy. According to the expressed views, the reasons can be divided into 3 major themes, these are: 1) Market for

[50] Kuala Lumpur is ranked 45th in the 2009 Global Financial Centres Index (GFCI). First ranking is London followed by New York, Hong Kong and Singapore.

Malaysian exports, 2) Perception from Arab people, and 3) The development of Islamic finance in the region.

Table 8-7 provides the views of the interviewees on the first focused coding of the second theme; that is the GCC countries as a new export market for Malaysia's trade. The table shows that all the interviewees recognise that this market is highly important for the diversification strategy of Malaysia's trade.

Table 8-7: Focused coding number 1 for question 2 (New emerging market for Malaysian exports)

New emerging market for Malaysian exports	
Interviewee 1	Extremely important for our new strategy in Middle Eastern market + decreasing demand from our major trading partner.
Interviewee 2	Historically these are non-traditional markets for Malaysia. But everybody is now seeking entry into them. Now they are our focus.
Interviewee 3	Become Malaysia's alternative market since their recent growing. These are now seen as new and expanding markets.
Interviewee 4	The GCC market will also contribute towards the development of halal industry in Malaysia
Interviewee 5	Most successful markets for our product

As discussed in section 9.2 the GCC area has become a re-exporter hub for Middle Eastern economies, and since Malaysia's trade with its trading partners has been decreasing, the Middle Eastern markets through the GCC economies are now trading partners for us. This was emphasised by one of the interviewee. It also could be said that Malaysia is following its neighbour Singapore, which is striving to capture the GCC market. Interviewee 2 stressed that, the GCC market has now become Malaysia's focus. Another reason that this region is a new market for Malaysia's exports is due to the demand for halal products which Malaysia has been promoting over the last 2 years (see Chapter 4). On the other hand, as highlighted by the interviewee, it is believed that the GCC countries form a growing market for Malaysian products.

Table 8-8: Focused coding number 2 for question 2 (Perception of Arab people)

Perceptions by the Arab people	
Interviewee 1	Good reputation especially during Mahathir's era
Interviewee 3	Malaysia is in good position and it is well thought of by Arab peoples
Interviewee 5	Our products are being accepted and more welcome

In Chapter 7, the perceptions of Malaysian traders of the GCC market were presented. It is encouraging to know that Arab traders/people have favourable perceptions of Malaysian traders and products. However due to time and budget constraints, this study has only managed to use an interview survey to investigate this. From the responses given in Table 8-8, it can be concluded that Malaysian products have been widely accepted in this region and are popular with the Arab people. Furthermore, Malaysia had a good reputation among the Arab especially when Mahathir was Prime Minister. From observations made during the fieldwork, most of the Arabs in the Gulf regions know Mahathir better than his successor (Abdullah Ahmad Badawi) and current Prime Minister (Najib Razak). This is due to Mahathir's views on the Muslim Countries and his efforts to strengthen relationships between them. In fact, when he was Prime Minister, Malaysia had been Chairman of the Organisation of Islamic Conference (OIC) from 2003 to 2008[51].

Table 8-9: Focused coding number 3 for question 2 (Islamic finance development)

Islamic Finance development	
Interviewee 1	They are quite active in promoting Islamic banking and finance
Interviewee 2	Several GCC Islamic banks already run their business in Malaysia (Al-Rajhi, Kuwait Financial House and Qatar Islamic Bank)
Interviewee 6	They may cooperate in Islamic banking and finance

[51] http://www.oic-oci.org/page_detail.asp?p_id=67

Focused coding number 3 in Table 8-9 shows why the GCC countries are seen as a new market destination for Malaysian exports, particularly in terms of exports of services. It reveals that the development of Islamic finance as discussed in section 8.2 opens up huge opportunities for both Malaysia and the GCC bloc to share their expertise on Islamic banking and financial system. These countries have been actively promoting Islamic banking and finance services and cooperating in developing these innovatory services.

8.4 PERCEPTIONS ON STRATEGIES TO PENETRATE THIS NEW EMERGING MARKET

As discussed in section 8.2, the GCC markets have become highly important for the Malaysian economy, particularly in terms of trade and as a source of foreign direct investment. Therefore, a question on strategy and policy was included in the interview schedule.

Table 8-10 shows the views and opinions of the interviewees on the strategy that might be taken in order to capitalise development of the GCC market especially for the benefit of Malaysian business. From the responses given, there are four major coded views that have identified an important strategy for penetrating the GCC market and intensifying trade relations with the surrounding Gulf countries. It is also important to remember that, as mentioned in 8.2, the GCC countries have become the gateway for Malaysian products to be marketed in the MENA regions. Accordingly, these strategies include: (1) products and services identification; (2) sending of special envoy; (3) acquiring business partners; (4) trade promotion, and (5) the formation of business associations.

Table 8-10: Results for question 3 (Strategy and policy to penetrate this new emerging market)

Question 3:	**How can Malaysia utilise and capitalise the GCC market?**
Focused coding	
1	Specify product and services that need to be promoted in the GCC market
2	Special envoy or regular visits
3	Partners and officers
4	Trade promotion
5	Business association
Theme	Several strategies and policies have been defined to cater for the GCC market and to intensify trade relations with the surrounding Gulf countries.

Table 8-11 shows the views of the interviewees on strategy number 1; that is product and services identification. As emphasised by most of the interviewees, Malaysia needs to focus on the major products to be marketed in this region. This certainly makes sense because the region's economic structure is quite different compared to Malaysia's major trading partners like Japan and the US, as they have no big manufacturing industry. Regarding this, an analysis of the Revealed Comparative Index (RCA) in Chapter six specifies which efforts Malaysia should concentrate in the region. Electronic and electrical products, construction, interior design and Islamic banking and finance services are also identified as Malaysia's major products that can be promoted in the GCC countries. Due to product and price competition with major exporters from China and long economic relationship between the Gulf and European countries, Malaysia certainly needs to identify its major products and services to be marketed in these countries.

Table 8-11: Focused coding number 1 for question 3 (Specify product and services that need to be promoted in the GCC market)

Specify product and services that need to be promoted in the GCC market	
Interviewee 1	Take advantage of our major product, and analyse what we can offer
Interviewee 2	Specialise and focus more attention on construction sector
Interviewee 4	We look for investment
Interviewee 5	Pursue value in money products
Interviewee 6	Electrical sector, manufacturing sector, construction, investment

Table 8-12 shows the second strategy to penetrate the GCC markets, which not only have a different economic structure, but also a different political structure. Most of the GCC countries have their own ruler (King/Emir) and it was emphasised by the interviewees that it is important to have strong relation with a country's ruler in order to have good economic and political relations and benefit from personal political patronage. Thus, most of the interviewees suggested that Malaysia need to send more special envoys to these countries.

Table 8-12: Focused coding number 2 for question 3 (Special envoy)

Special envoy or regular visit	
Interviewee 1	Most of the owner of GCC businesses owned by the royal family, so it is important to have diplomats and important figures in the GCC
Interviewee 2	Special envoy of royal blood of Malaysian king
Interviewee 3	Appoint special envoys
Interviewee 4	More regular visits by our influential figure like - Singapore has done
Interviewee 5	Our government should play greater role as well to strengthen this relation by regular visits
Interviewee 7	More regular visit by Malaysian leaders

From these responses, Malaysia needs to organize more regular visits to these particular countries if it is interested in capturing these markets. Importantly, it is suggested that the envoys must have at least royal family

status because most of the ministers and officers in the important positions in the GCC region come from the royal families. According to the feedback, for the Arab leaders, social status is very important and hence marketing strategies should take this into account. This strategy has been implemented by Malaysia particularly in promoting the Islamic banking and finance industry where they appointed Raja Nazrin[52] as a spokesperson. This strategy seems to have been successful in attracting the attention of the GCC officials.

Table 8-13: Focused coding number 3 for question 3 (Partners)

Partners and officers	
Interviewee 1	Gain trust from local traders and hold joint venture with them
Interviewee 2	Proton is going over to the region, established its assembled factory in Iran
Interviewee 3	The more partners you have, the better you have among the counterparts.
Interviewee 4	PETRONAS General Trading has also been actively doing business with a GCC local company

Table 8-13 shows the opinions of the interviewees as why having a local partner is important for penetrating the GCC market. These interviewees suggested that it is important to have local partners in order to gain their trust. In doing so, big Malaysian company such as PROTON (automobile company) and PETRONAS (oil-based Company) are already investing in this region. It is important to note here that there is a number of arguments that suggest that the more foreign investment that one country has in other country, that will lead to greater trade volumes for that particular country. Without doubt, as mentioned by the interviewees, it is worth having a local partner. In the meantime, the Malaysian government itself is looking forward to sending more officers and a government linked company to explore the opportunities.

[52] Raja Nazrin is a well-known and well-educated prince ("*Raja Muda*") in one of the states in Malaysia (Perak). He has been an envoy for the Malaysian Islamic Finance Council (MIFC) since 2008.

Table 8-14: Focused coding number 4 for question 3 (Trade promotion)

Trade promotion	
Interviewee 1	Every year we are participating in trade exhibitions in the region especially in Dubai
Interviewee 2	Malaysia appoints Raja Nazrin to promote Islamic Banking
Interviewee 3	Malaysia Trade Centre in Dubai, centre for promotion
Interviewee 7	Undertake and intensify promotion activities in the GCC region

Trade promotion certainly is an important strategy to boost market demand for Malaysian products in the GCC region. Table 8-14, shows Malaysia's commitment to enhancing its trade relation with this region by undertaking considerable trade promotion activities. Jeddah and Dubai have been focal points for Malaysian businesses and trade chambers in which to promote their products throughout the GCC market. Through the Malaysia External Trade and Development Corporation (MATRADE), Malaysia has opened up two trade promotion centres in Dubai and Jeddah. Apart from this, MATRADE has also been actively involved in arranging exhibitions particularly in Dubai and other countries in the Gulf. As previously discussed, it is important for the members of royal family to take part in promotion in these countries. Indeed, the Malaysia Islamic Finance Council (MIFC) has done just this and used royals for promotion work in the Gulf. It is said that, it is easier to send royals to the GCC countries than government ministry personnel as Arabs pay more respect to people of royal blood.

Table 8-15: Focused coding number 5 for question number 3 (Business association)

Business association	
Interviewee 2	Initiating business council's cooperation between Malaysia and GCC countries
Interviewee 6	Organise an association together

Table 8-15 shows the fifth strategy suggested by the interviewees. Apart from government initiatives, it is also important to have private institutions

that promote business relations between the Gulf countries and Malaysia. Thus, it is suggested that Malaysia should have more business council cooperation with the GCC countries. Up to now, there are only two councils that actively engage in promoting business relations between Malaysia and the GCC: the Malaysia-Saudi Arabia Friendship Society (MBFS), which focuses on the Saudi market; and the Malaysia Chambers Association (PERDASAMA) which has been actively doing promotion in Oman. This strategy is seen as a highly effective way in strengthening business relations between Malaysia and Arab Gulf countries without being fully dependent on government agencies.

8.5 PERCEPTIONS ON MAIN ISSUES AND CHALLENGES IN STRENGTHENING TRADE AND ECONOMIC RELATIONS WITH THE GCC COUNTRIES

In Chapter 6, an in-depth discussion considered the main issues and challenges that Malaysian traders had been facing in doing business with Arabs. Several issues were identified that had led to low- level business penetration by Malaysian businesses in the GCC countries. However, it is also important to have a clear understanding of the regulator's and officers' view as front-liners in dealing with this market. Thus, question on this issue were raised during the interviews. The coded findings are presented in Table 8-16.

According to the interviewees, there are five main issues that need to be taken into account by both parties in order to strengthen their political and economic relations. These issues include: 1) issues of cultural difference; 2) lack of capital and sources of funds; 3) competition; 4) law and regulation; and 5) issue of trade agreements

Table 8-16: Results from question 4 (main issues and challenges in strengthening trade and economic relations with the GCC countries)

Question 4:	**What is the main obstacle to Malaysia – GCC economic relations, and how could this be overcome?**
Focused coding	
1	Cultural differences
2	Lack of capital and sources of funds
3	Competition
4	Law and regulation
5	Issues of trade agreement
Theme	Culture, lack of capital, competition, ineffective trade agreements and issues of law and regulation are the main challenges to be overcome by both Malaysia and the GCC countries.

Table 8-17: Focused coding number 1 for question 4 (Cultural difference)

Cultural difference	
Interviewee 1	Understand the way that Arabs do business; different culture
Interviewee 2	Culture; and Westerners always regarded as better than Asian.
Interviewee 3	Typical Malaysian businessmen are thinking in their own way without considering Arab businessmen / peoples culture
Interviewee 4	Cultural differences in the GCC – investors must gain their counterparts' confidence and trust before their counterpart would accept them as business partners.

Table 8-17 shows the respondents' views on how cultural differences may affect business between Malaysia and the GCC. The responses reveal that doing business between different cultural backgrounds can be an obstacle to mutual trade relationships Culture plays an important role in doing business with Arabs. Thus, Malaysian traders obviously need to consider Arab culture in doing business with them. It is said that trust and the way that Arab people do business are very important factors that should not be taken for granted by the Malaysian traders. As emphasised by one of the interviewee, it takes at least a year to gain the trust from an Arab before you can do business thus it is ineffective for a small country like Malaysia.

Table 8-18: Focused coding number 2 for question 4 (lack of capital and sources of funds)

Lack of capital and source of funds	
Interviewee 1	We have expertise but we do not have enough capital
Interviewee 2	Malaysian companies require "sponsor" in order to set up office or doing business in the GCC countries
Interviewee 3	Needs a big pocket. Ineffective. 1 – 2 years for market research.
Interviewee 4	Cost of doing business in the region is very high.
Interviewee 5	We are not able to meet the demand for exporting our goods

The second challenge that needs to be faced is capital or sources of funds. Table 8-18 shows the reasons why there is a need of more capital and funds in running a business in this region. Although the tax and duties for importing and exporting products to the GCC countries is very low, the cost of day-to-day running a business in these countries is expensive.

As previously mentioned, Malaysian traders are not familiar with the way in which Arabs conduct their business. Therefore, most of the traders need to spend 1 to 2 years on market research and this needs a huge amount of money. Unfortunately, Malaysian companies do not have enough capital to undertake such activities in this region even if they have the expertise. Thus, it is suggested by one of the interviewees that Malaysian companies require 'sponsors' in order to set up office or do business in the Gulf countries. This is due to the high cost of living in the most of these countries, specifically in the UAE. Nevertheless, this issue does not only happen for the Malaysian companies doing business in the GCC countries, but it also can often be an issue for doing business in other markets. However, it is unlikely to be as serious as doing business in these Gulf countries.

Table 8-19: Focused coding number 3 for question 4 (Competition)

Competition	
Interviewee 1	Competition from high quality products, cannot compete with cheap product from China
Interviewee 2	Western products always regarded as better than Asian

Table 8-19 depicts interviewees' views on the competitiveness of Malaysian products in the GCC countries. It can be said that Malaysian products in the Gulf countries are considered as middle-end products. They are not cheap, but they are also not high-quality products. Therefore, on price they cannot compete with cheap products from China nor are they comparable with high- quality products especially from Europe. Thus, Arabs prefer to buy goods from the Western countries and consider that the Western products are better than Asian goods. Thus, it creates high competition for the Malaysian products.

Table 8-20: Focused coding number 4 for question 4 (Law and regulation)

Law and regulation	
Interviewee 2	Unclear rules /regulations / always change
Interviewee 4	Policies and guidelines on doing business in the region are very inconsistent and non-transparent. Regulations keep changing.
Interviewee 6	Law and regulations need to be revised to promote liberal trade

Inconsistency in the implementation of law and regulations particularly in doing business in the Arab countries is also considered as a main issue for Malaysian authorities. Table 8-20 shows interviewees' opinions towards the implementation of the law and regulation in the GCC countries. It is suggested that authorities in these countries keep changing their policies, regulations, and guidelines on doing business. This certainly creates problems for business people.

Table 8-21: Focused coding number 5 for question 4 (issues of trade agreement)

Issues of trade agreement	
Interviewee 2	There are more than 10 trade agreements, but do not work and are not fully utilised. Only economic related issues and double taxation are fully utilised.

The table in Appendix 13 shows the list of agreements that Malaysia and GCC countries have had since 1970. These agreements, however, do not include those that they have within the OIC countries. Table 8-21 shows that one interviewee raised the issue of trade agreements that have already been signed up to but have not been fully utilised. According to the interviewee, there are only two agreements that both countries are being implemented, and they are economic related and a double- taxation agreement. It is also noted that Malaysia and individual GCC countries still do not have any joint trade committee (JTC)[53], which is important for mutual trade relationships.

8.6 PERCEPTIONS ON FREE TRADE AGREEMENT (FTA)

Table 8-22: Results for Question 5 (FTA)

Question 5:	**Opinion on FTA**
Focused coding	
1	FTA between Malaysia and GCC
Theme	Malaysia is very keen to synergise economic and trade relations with the GCC and having FTA with the bloc.

Interviewees were also asked about their hopes for a free trade agreement between Malaysia and the GCC countries, which was proposed by an ex-Minister of International Trade and Industry, Rafidah Aziz, in 2007. From the responses given, it can be said that Malaysian business circles are looking forward to synergising economic and trade relations with, and having an FTA with the GCC economic bloc.

[53] JTC is a co-chair committee between the trade ministers to discuss trade issues and disputes.

Table 8-23: Focused coding number 1 for question number 5 (FTA negotiation between Malaysia and GCC)

FTA between Malaysia and GCC	
Interviewee 1	Looking for GCC – Malaysia FTA which has been pursuing since Rafidah Aziz (previous MITI minister). But nobody looking it seriously
Interviewee 2	Signing agreements with the countries to improve bilateral trade;
Interviewee 3	Proposal has already been submitted, but it takes quite a long time to be accepted.
Interviewee 4	FTA is very important and it is highly suggested, because everybody is moving to the region.
Interviewee 5	Yes we are looking but current duty is already low, flat import duty 5%
Interviewee 6	It's good to have FTA with them. It shows we have good relation with them, this creates an image of Malaysia as a Muslim country

Although most of the respondents expressed their support towards the establishment of a Malaysia–GCC FTA, as can be seen in Table 8-23, they are also complaining about the responses given by the GCC secretariat. It is said that the GCC countries do not seriously take into account Malaysia's proposal for an FTA between them.

According to the interviewees, having a Malaysia – GCC FTA, could improve bilateral trade, and Malaysia could easily capture this market. One of the interviewees also highlighted the fact that, by having an FTA with the Gulf countries, it will create a positive image of Malaysia as a Muslim country in the region. This politically may strengthen relations between Muslim countries, in particular between Malaysia and the Arab world.

8.7 CONCLUSION

This chapter has attempted to explore the views of the interviewees regarding the issue of Malaysia – GCC trade relations to seek to answer one of the objectives of this study which was discussed in Chapter 1. Nevertheless, discussions in this chapter here emphasised the opinion of the interviewees regarding the importance of the GCC market for the Malaysian economy, with its associated problems and challenges in doing business in the Arab Gulf market, the strategies and policies required to penetrate the GCC market, and the prospects of a Malaysia – GCC FTA.

Based on these views, it can be concluded that the interviewees believe the GCC market is important for Malaysian trade, especially to capture Middle East region markets. It is also agreed that, being a Muslim country, in one-way or another, gives an advantage to Malaysian businesses to explore and develop these new emerging markets. Several sectors in these countries, such as financial services (particularly Islamic financial services), manufacturing (petrochemical based), and real estate have been identified by Malaysian traders and businessmen as opportunities to explore and grab. Moreover, the interviewees have suggested that Malaysian businesses have highly positive reputation in doing business with Arab.

Although there are huge opportunities for Malaysian businesses to grow in this market, several challenges and obstacles have been identified that the Malaysian authorities and traders should consider in order to expand in the region. Issues such as regulations, law and enforcement, cultural differences and issues of trade agreement are among the major challenges raised by the interviewees.

Ultimately, in order to intensify Malaysia's economic and trade relations with the GCC countries, the interviewees said that it is important to identify appropriate strategies for penetrating these markets. Special envoys, regular visits by minister, having business partners, trade promotion and business

associations are among the suggestions given by the interviewees for achieving success.

Importantly, regarding the issue of a Malaysia – GCC FTA the interviewees showed their dissatisfaction at the responses given by the GCC secretariat on Malaysia's proposal. However, they strongly support any effort and look forward to one being established.

Chapter 9 DISCUSSION

9.1 INTRODUCTION

This chapter reviews the findings and discussed the main findings from the analyses which were conducted in this thesis. It presents a combination of the results emerging from the analysis of the intensity index, revealed comparative indices, business surveys, and interviews. It also discusses the strengths, weaknesses, opportunities and threats regarding Malaysian trade into the GCC region.

As this research employed a combination of quantitative and qualitative methods in collecting and analysing the data, it has produced various findings in responding to the objectives of the study. This research has involved in-depth investigation of the composition of exports between Malaysia and the Arab Gulf countries, the competitiveness of Malaysian products in the market and a detailed analysis of the views of Malaysian traders as well as policy-makers involved in trade exploration in the GCC countries. The current study has used the GCC as a context for attempting to determine to what extent the views of traders and authorities meet Malaysia's trade expansion strategy for the Middle Eastern market.

This chapter aims at bringing together all the findings from the individual chapters with the objective of developing a better understanding in a systematic and integrated manner.

9.2 CONTEXTUALISING THE FINDINGS

To give structure to the discussion on the findings, an analysis of the strengths, weaknesses, opportunities, and threats (SWOT) of the research was conducted in order to develop a clear and objective conclusion . The SWOT analysis is presented in the significant themes as following:

9.2.1 **Assessing strengths: Malaysia and GCC trade relation advantage**

9.2.1.1 A strong religious affinity is not a requisite for enhancing trade

Both Malaysia and the GCC share the same faith, Islam. It is believed that, Islam encourages economic cooperation and integration. As mentioned in the Quran, Q23:52 and Q21:92, "Surely, this nation of yours is a single nation"; this is quoted by Raimi and Mabolaji (2008) as an indication of the importance in Islam of economic cooperation. Therefore, being Muslim countries, it is and advantageous for Malaysia and the GCC bloc to have good economic and trade relations. It should be in mind that the notion of economic cooperation in this context does not mean that they must disintegrate with non-OIC/non Muslims countries. Economic cooperation and integration must be seen in wider context, however, similar culture and religious views would be an advantage to expand the relationships.

Evidence from the data collected shows that the trade relations of Malaysia and the GCC countries with other Muslim countries have been insignificant compared to trade relations with their major trading partners. Indeed, Malaysia's trade relations with the GCC countries have been a mere 2-3% of its total trade (see Chapter 6).

Despite the Muslim leaders' optimism following intra-OIC trade enhancement, the findings of this thesis suggest that, when it comes to business, religious affinity does not matter. It was evident from the questionnaire that the motivation of Malaysian traders to do business with the GCC countries is not influenced by their religion similarities. More than 50% of the respondents either disagreed that they were motivated by religious affinity, or were neutral on the matter. These results indicate that religion is not a main factor, but still is one of the factors for the traders doing business with their counterparts in the region. It can be said that, strong political relations that motivated by religious views between Malaysia and GCC countries have not

been translated into business form despite the huge opportunities to expand the business relations.

This finding is supported by the responses given during the interviews. Most interviewees believe that the spirit of Muslim brotherhood plays no part for the Arab as well as the Malaysian trader in doing business. However, being Muslim countries in one way or another remains a special factor for both parties in expanding their economic and trade relation.

9.2.1.2 Economic diversification strategy

An analysis of the economic background of GCC countries was carried out and presented in Chapter 3. From the analysis, it can be concluded that the countries have strong and viable resources backgrounds. Most importantly, the GCC member countries are diversifying their economies and moving away from dependence on oil. Although the successfulness of their economic diversification strategy is questionable, this creates a huge opportunity for Malaysian businesses and expertise to develop into the GCC region. As Malaysia has great experience in developing its economy through privatisation strategies, GCC countries can benefit from Malaysian experience in diversifying their own economy. Recent developments have also shown that a number of Malaysian-GLC companies, such as Tenaga Nasional Berhad (TNB), are investing in the GCC region, particularly in Saudi Arabia and the UAE. Being an investor in the GCC countries would certainly assist to increase bilateral trade relation with the countries.

Nevertheless, it is important to bear in mind that strong political relationships are needed in order to take advantage of the opportunities for Malaysian companies to invest in this region.

9.2.1.3 Products and market potential

Study of bilateral trade relation between Malaysia and the GCC bloc which was presented in Chapter 6 indicates promising future relation between the countries. Increasing trade trends, a high trade intensity index (especially exports) and Malaysian product competitiveness in the Gulf market demonstrate good prospects of trade expansion with the Arab Gulf market. The UAE and Oman were most attractive destination for Malaysian exports for the period of studies based on the intensity index analysis. This is due to the UAE's economic diversification and its role as the entre port in the Middle East. For Oman, the high exports intensity index is caused by its high demand Malaysian products of palm oil.

One of the most important findings to emerge from the analysis of the RCA of Malaysian exports with respect to the GCC market is that Malaysia is strongly and consistently competitive in 23 product groups based on standard international trade classification at 3 digit level (see Chapter 6, section 6.5.2). Few other Malaysian exports were highly competitive in 2007. Nor were they competitive in these markets in 1998. The estimation of revealed comparative advantage suggest that if there are to be any negotiations on a Malaysia-GCC bilateral FTA, Malaysia should push for greater market access for those products listed in Chapter 6, particularly for palm oil, wood chips/waste, furniture, industrial heating/cooling equipment, and selected electronic and electrical products. However, comparison with Malaysia's rivals among the leading Asian economies which are also trading in the GCC, has revealed that, these products competitiveness are still dominantly hold by Malaysia.

9.2.2 Weaknesses in current Malaysia – GCC trade relations

9.2.2.1 Weaknesses in trade promotion and GCC administrative procedures

The questionnaire analysis indicates that a lack of trade promotion in the GCC market means that traders are less likely to do business there. Although the findings show that they are interested in exploring the market, a high percentage of the traders (44%) consider that a lack of GCC market trade promotion has been a huge barrier to penetrating the market. Results from the interviews seem to suggest the same even though there are two Malaysian authorities promoting trade in Dubai and Jeddah, which indicates that in most cases the traders do not take advantage their existence in the region.

As a result of the low level of promotion, traders who have never been in the Gulf region have misconceptions about the market. This is confirmed by their view that language is a barrier to expanding their business in the Arab world. This result contrasts with the experienced traders' views on the matter. According to more than half of the respondents, language is no longer a problem to business in there.

On the other hand, these experienced traders have been struggling with market approval. This is in terms of obtaining approval on testing and specifications for their products. The findings show that 33 percent of them have been experiencing problems in these matters while doing business in the Gulf countries. These problems can possibly be explained by the inconsistency of law and regulation implementation in the GCC countries. They were emphasised during the interviews as major obstacles and challenges to business in the region. Indeed, these factors have certainly affected business relations between Malaysia and the GCC bloc. These issues were also identified by Dar and Presley (2001) as obstacles to the GCC regional trade and investments where they noted that the lack of unified policy and differing laws

between the GCC countries have been the non-tariff barriers to trade among the Gulf countries.

9.2.2.2 Less exports product diversification

As indicated in the RCA index analysis in Chapter 6, Malaysia – GCC trade relationships have largely concentrating on natural resources products. Malaysia's potential capacity to export products to the GCC bloc has been influenced by its evaluation of the imports structures in these countries and thus it has focused on wood, jewellery and palm oil based products. In terms of the GCC RCA index, that has also been concentrating on petroleum and oil products. Perhaps, this explains low level of trade integration between Malaysia and the Middle East economies and, in particular between other Muslim countries.

On the other hand, less export diversification is also influenced by the economic structures of both Malaysia and GCC. The Gulf economies are dominated by services-related industry while Malaysia has been more concentrating on manufacturing industry. This can be seen in the discussion on both parties' economic backgrounds in Chapter 3 and Chapter 4.

9.2.2.3 Cultural differences as an obstacle for Malaysian traders

Findings from the interviews suggest an important challenge for Malaysia's and the GCC countries' trade and business relations (see Chapter 7). Despite being Muslim countries, cultural difference between Malaysian traders and GCC businessmen have become an obstacle for Malaysian traders to expand their business in this market. As suggested by Helbel (2007), cultural aspects are often neglected in intensifying international cooperation between countries. Thus in this relations between Malaysia and GCC, it appears that Malaysian traders seems to neglect the importance of understanding cultural difference in the Arab Gulf market.

As new players in the market, Malaysian traders were unaware and took for granted Arab culture when trying to conduct business. They assumed that doing business in Arab countries is similar to penetrating other markets in the world. It is now clear to them that, in order to run a business in the Gulf, culturally, traders need to have a trading partner in the region to make sure they can sustain in marketing their products there (see Chapter 7). It seems that this should be part of their marketing strategy. Nevertheless, it is clear that, Malaysian traders were unable to meet this requirement due to funding problem. Malaysian traders, therefore, need to understand the way that Arabs do business, especially concerning trust and confidence in business relationship.

9.2.2.4 Source of fund

The questionnaire survey's results indicate that sources of funds have been among the major problems for Malaysian traders in bringing their products forward to the GCC market (see Chapter 7). As the GCC bloc is a new emerging market and because there is a lack of information regarding the market new players need to invest heavily to capture it. As the survey discovered small medium enterprise (SME) have led the market penetration, there is a need for huge funds to discover this market, and lack of investment capital has been a recurrent weakness for the Malaysian player competing for this market.

The interviews analysed in Chapter 8 also revealed that Malaysian businesses are not able to sustain and compete in this 'high maintenance market' without huge funds. Although, Malaysia had a long political and historical relationship with this region, for a new Malaysian trader in the market, one year is to too short to conduct a market research. Despite the GCC market's attractiveness, capital has been a problem for Malaysian traders wishing to expand their business.

9.2.3 **Opportunities to further develop relations**

In describing the potential for intra-Malaysia-GCC trade; a number of opportunities have been identified for Malaysia in this study.

As the GCC is a custom union and its taxation of imports from over the world is already low, below than 5 percent (MFN weighted average), this creates huge opportunities for Malaysian products to be exported to this region. Since the United Arab Emirates, especially Dubai, is a well-known trade hub in the Middle East region, it is important to use this opportunity to penetrate not only other GCC markets, but also others in the Middle East and West Africa. It is suggested that, having a free trade agreement (FTA) with the GCC may reduce current tax structures.

Returning to the question posed at the beginning of this study, it is now possible to state that Malaysian traders are highly encouraged about a GCC – Malaysia free trade agreement. This is supported by the findings of the questionnaire survey. It is also supported by Malaysian trade authorities who are now actively lobbying for this. Although the Malaysian authorities have been actively lobbying this proposal, problems happen when the responses from GCC authorities are too slow.

Besides the opportunities of a Malaysia-GCC free trade agreement under the OIC, the OIC has introduced PRETAS, a protocol on a preferential tariff scheme for TPS-OIC in which Malaysia and the GCC member states can take full advantage of if it can be successfully implemented.

The findings in the RCA analysis in Chapter 6 indicate that Malaysia and the GCC countries specialise in different products. This leads to low level competition as both Malaysia's and the GCC's products compliment to each other. If the analysis on future trade potential is taken into account, the possibility of increasing trade between the two parties may be realised.

The findings in the RCA analysis indicate that these products consist of palm oil, jewellery, furniture, cocoa, margarine/shortening, natural

rubber/latex/etc, animal/vegetable oils processed, crude materials (tin and lead), and electric and electronic products. Other products with potential growth include wood chip/waste products, iron/steel/wire, valves/transistors/etc, meat and offal preserved, and wood-based manufactures.

Besides opportunities for trade in products that have been heavily discussed in this thesis, which remains very low and less diversified, the services sector that comprises Islamic finance and banking sectors has been identified as one with growth potential. The emergence of these sectors creates huge potential for both parties to strengthen their current economic relationships. Malaysia is recognised as a pioneer in this sector and such GCC countries as Dubai, Saudi Arabia and Bahrain especially, are highly interested in it. In fact, Dubai is recognised as among the top 25 financial centres in the world (Mark Yeandle, 2009) and one that could bring up the Islamic finance sector altogether. In the meantime, it is Malaysia's target to increase services' share of GDP from around half to 60% by 2020 and in subsequent reduce reliance on manufactured goods (WTO, 2009c).

9.2.4 **Facing current threat**

Despite the existing strengths and potential opportunities for expanding trade between Malaysia and the GCC bloc, external and internal threats to the current relationship also need to be taken into consideration. This research has indentified three important issues that could jeopardise the Malaysia – GCC trade relationship. These include product and market competition, and trader's views on the security issue in the region.

As discovered in Chapter 7, Malaysian traders as well as products are facing difficulties with the GCC market competition. Products from China for example, are abundant in the market at highly competitive prices, thus it is difficult for Malaysian products to compete with China's products. It is also

clear that Singapore's FTA with the GCC countries that was signed in 2008, in one way or another, is affecting Malaysia's exports to this market. As both Malaysia's neighbour and as an entre-port in the South-East Asian region, Singapore as a competitor for Malaysia's trade with the Middle East market.

Another issue that has been revealed in this research as a threat to Malaysia – GCC trade expansion is the political and security instability in the Gulf region. The war on Iraq, Iran's conflict with the west and the Somali pirate issue, for example, threaten the trade route, and negatively affect Malaysian traders' perception towards the region. In Chapter 7 it was shown that 24 percent of the inexperienced Malaysian traders see security as an obstacle for them to penetrate the GCC market. Although this is only perception that can be argued, this issue remain vital, as the traders claim that they were not fully informed regarding the right information in the GCC. Therefore, intensive market promotion needs to be done if Malaysia is highly intent on capturing this market.

9.2.5 **Summarising the SWOT Analysis**

Table 9-1 summarises the SWOT analysis in a systematic manner with the discussion presented in the preceding sections. Certainly, by maximising the strengths of the current relationship, it is believed that bilateral relations between Malaysia and the GCC countries can be expanded. The current weaknesses, in particular the slow pace of trade promotion and the funding problem, need to be overcome and collaboration between both Malaysia and GCC official's on these matters needs definitely improved. This is emphasised in the policy recommendations in this thesis. Unavoidable threats such as market and products competition can be overcome by emphasising on niche products as discussed in Chapter 6.

Table 9-1: Summary of SWOT analysis

Strengths	**Weaknesses**
Religious affinity GCC economic diversification Competitive strength of the Malaysian goods	Trade promotion Less export product diversification Cultural differences, lack of cultural management Lack of fund
Opportunities	**Threats**
GCC as a customs union Dubai as a trade hub in the Gulf region Malaysia-GCC trade talks (FTA proposal) Protocol on the preferential tariff scheme for TPS-OIC (PRETAS) Islamic banking and finance services	Products and market competition Security issues in the region

Nevertheless, security issues in the region remain unavoidable since the Arab Gulf and the surrounding areas have long been areas of conflicts. As suggested by Janardhan (2007), in ensuring stability, peace and security issues in the Gulf region, participation from Asian economic powers such as China, India and Pakistan in the region might be possible. Further cooperation beyond the trade and business relations with the Gulf region would expand "Asian countries coordination and bring closer regional cooperation in between GCC and Asia (Janardhan, 2007). According to him, current development shows the inclination from these countries in order to secure their interest, in particular their trade relations with the countries in the region. Thus, it seems impossible for Malaysia to take part in security issues in the region except diplomatically.

This chapter has summarised major finding from the analyses that were carried out in this research. The findings were constructed by using SWOT analysing in contextualising current Malaysia's trade relations with the GCC countries. Next chapter is attributed in giving a conclusion from the whole thesis.

Chapter 10 CONCLUSION AND RECOMMENDATIONS

10.1 INTRODUCTION

This chapter is a summary of the thesis which presents outcomes of this research. This chapter summarizes the thesis, discusses the benefits of the research, the difficulties encountered and what improvements that can be done to the research. The limitations to the research are also discussed in this chapter as well as suggestions for future work.

10.2 SUMMARY OF THE RESEARCH

As mentioned in the introduction and methodological chapter, the research was initially motivated by trade cooperation among Muslim Countries. The study has attempted to explore Malaysia‘s relationship with the Gulf Cooperation Council, due to the economic background of these countries and to Malaysia’s desire to expand its trade with Middle Eastern economies. Nevertheless, the objective of this research was not to examine the feasibility of an FTA between both parties, but to explore both the opportunities and challenges associated with penetrating the GCC market and the possibility of further bilateral trade expansions in particular free trade agreements.

In the discussion of the literature review in Chapter 2, an attempt was made to answer the question as to why countries trade. In classical economic theory, the comparative advantage of a country has led it to export its products in exchange for goods that comparatively disadvantage in the country’s production. This theory has for a long time served to explain bilateral trade between countries, and still remains reliable and applicable in today’s world. Thus, Chapter 6 of this study presented an analysis of Revealed Comparative Advantage (RCA) based on Balassa’s index, which provided a major finding concerning Malaysia’s relationship with the GCC countries as well as Malaysian products' competitiveness in the market.

In addition to findings regarding Malaysia's trading relations with the GCC as presented in Chapter 6, an assessment of traders' views on the GCC markets was made. This study was conducted using questionnaire and interview surveys. It aimed at understanding the views of Malaysian traders on the Gulf markets and the challenges to its penetration.

The primary data of the questionnaire were then analysed using SPSS, and the interviews were transcribed and analysed. The questionnaire analysis was based on a list of questions that had been set out beforehand according to the aims and objectives of the research. The semi-structured interviews were sorted using thematic analysis and then categorised into highly important and significant issues for the subject studied. The survey revealed many aspects of the GCC market and of Malaysia's relationship with the countries. These were evident based on the perceptions of the Malaysian traders as well as the opinions provided by the interviewees.

The findings from those analyses were the constructed by using SWOT analysis as presented in Chapter 9. From the analysis it may concluded that, Malaysian business' present in the GCC countries is determined by its strong relationships with the GCC countries and competitiveness of the Malaysian goods in the market.

Despite sharing indigenous factor, religious affinity, it does not help in promoting business relations between these two countries. Nevertheless, the religious affinity remains special factor in strengthening diplomatic and political relations with the GCC countries. In the mean time, it is found that there is opportunity for Malaysian traders to expand their business in the market, but, in depth understanding on the Arab culture of doing business is necessary. In the light of the finding from this research, this thesis offers some recommendations that might be implemented for future relations between Malaysia and GCC countries.

10.3 POLICY RECOMMENDATIONS

According to the finding discussed in the preceding sections, policy recommendations can be developed with regard to various issues.

The key finding concerning Malaysian traders' perceptions towards the GCC market is lack of promotion which results in ambiguous information on the Arab Gulf market. These ambiguities include security and political circumstances in the region as well as to business culture of the Arab peoples. Therefore, in order to attract more Malaysian traders to capitalise and utilise Arab Gulf economies, trade promotion needs to be intensified. This requires a concerted effort by various departments of the Malaysian government, local chambers of commerce and other non-states actor such as NGOs.

It is also admitted that exports from Malaysia to the GCC are less diversified that had been thought and is heavily concentrated on capital-intensive products. Despite the huge opportunity in the GCC market, Malaysia must consider tapping other potential products in order to increase trade relation. Services and the petrochemical sectors are seen as industries that have a potential for expansion in the region.

The traders' challenge in penetrating the GCC market is mainly due to their lack of capital as discussed in Chapter 6. Their financial resources remain a problem for them in expanding their business not only in the Gulf region but in other countries as well. Therefore it is suggested that giving incentives to traders to do in the region will be helpful. But again, active government involvement in supporting businessmen wishing to enter this market is required.

Besides the government-to-government roles in promoting Malaysian products and improving the mutual understanding and increasing cultural tolerance (as suggested by Helbel, 2007) with the Gulf countries, non-state actors like chambers of commerce may actively involved in expanding trade relation between the countries. Intensifying existing chambers of commerce

such as the Malaysia Saudi Arabia Business Council, the GULF-ASEAN Economic Centre (centred in Kuala Lumpur), Malaysia-Saudi Arabia Business Council and the Malay Association of Merchants and Entrepreneurs (*Persatuan Pedagang dan Pengusaha Melayu Malaysia* (PERDASAMA)) will be beneficial for Malaysia's trade relations with the GCC countries.

Nevertheless, in such GCC countries as Saudi Arabia and the UAE, non-state actors would be insufficient to attract the Arab rulers to collaborate with the Malaysian businessmen. As is clear in the interview survey analysis in Chapter 8, participation by members of Malaysia's royal family would further help to boost existing relations as has been done by Malaysia International Islamic Financial Centre (MIFC) in its promotion of the Islamic finance industry by appointing one of the Malaysian royals as a special envoy to the region.

Apart from business based non-state actors' role in promoting and enhancing bilateral trade relations with the GCC group, participation from Malaysian NGO's, particularly religious-based groups, would also be beneficial in strengthening not only economic relations with this group, but also political relations. Malaysian NGOs such as Malaysia-Saudi Arabia Friendship Society (MSAFS) may be actively involved in strengthening current positive relations with the GCC countries. A study conducted by Limlikit (2009) examines Thailand's relations with the GCC prove that private association, such as Islamic organisations and associations, with support from government can play an important role in promoting and enhancing the country's relations with the GCC states, including trade relations.

Since the research lies under the Muslim countries economic cooperation and Malaysia and the GCC countries are member of OIC, it is suggested that both Malaysia and GCC should intensify the role of multilateral agencies that promoted Muslim countries trade enhancement. This includes the participation of Islamic Centre for the Development of Trade (ICDT) and Islamic Trade Finance Corporation (ITFC).

Despite the challenges that are facing current efforts to negotiating an FTA proposal with the GCC economic bloc, the responses given by Malaysian traders indicate that there is a need to have such an agreement. It is seen as an opportunity for Malaysia to enhance further current bilateral trade ties with the region. This bilateral trade agreement would be also beneficial to Malaysian exporters as discovered in Chapter 6. Hence, it is recommended that further actions such as lobbying and dealing with a particular country in the region unilaterally need to be pursued.

10.4 LIMITATIONS OF THE RESEARCH

Research in social sciences is conducted in a controlled manner, which imposes a number of constraints. In addition, conducting research with business people in developing societies such as Malaysia in one way or another affected the responses given. Considering the nature and busy life of traders, the respondents tend to keep away from researcher or they participate with reluctance. Although this research had utilised the online survey, the responses still very low, as the invitation's emails sent were bounced and numbers of the emails were invalid. Furthermore, getting permission to conduct research in the form of questionnaire and interviews from the respondents in Malaysia and Dubai can be challenging. It would be suggested that, face to face interview and survey by utilising trade event or exhibition would beneficial to get high response rate. Nevertheless, time and budget need to be taken into consideration in conducting this type of surveys.

Importantly, due to nature of exploratory research and taking into account low level of trading between and Malaysia (less than 3 percent), it was not possible for this study to undertake an econometric study even though such an approach with secondary data would have contributed to our understanding of the Malaysia – GCC trade pattern in a systematic manner. Lack of data on trade in services between Malaysia and GCC countries affected this study.

Therefore, further analysis on trade in services between the two parties would also useful to examine these relations. Nevertheless, this research manages to analyse exports competitiveness between Malaysia and the GCC bloc and this led to the discovery of product potential between these two parties. Undoubtedly, any findings from an econometric analysis would be interesting and could overcome any potential bias in the qualitative research arising from the questionnaires and interviews, which might reflect the social attitudes of the participants.

10.5 RECOMMENDATION FOR FUTURE RESEARCH

In this study, research has concentrated on the Malaysia and GCC trade relationships. Although there are positive perceptions among the Malaysian traders towards the Gulf countries and support from the traders for the proposal of a Malaysian-GCC FTA, investigations on developing new product ranges between the countries show less and not greater diversification . Therefore, in the course of this thesis, two specific areas worthy of future research have become apparent.

As indicated in Chapter 7 on the survey of Malaysia – GCC FTA proposal, it may be useful if future research could involve a feasibility study. Although this issue was briefly discussed in Chapter 7, a more thorough examination of this issue would definitely be useful for Malaysian businessmen.

Another area which warrants further research concerns the GCC FTA with Malaysia's neighbouring country. In this regard, this research recognises that Singapore become a threat to Malaysia's trade expansion strategy with the GCC countries in particular and Middle East economies in general. Therefore, a study on the implications of current GCC economic relation with Malaysia's trade competitors is also seen as in need of assessment.

Thirdly, as mentioned in the recommendations section, an econometric time-series analysis with secondary data could be conducted to identify

demand for Malaysian exports (i.e: products to the Gulf) as well as the determining factors of Malaysia's exports to the GCC.

Lastly, this study is main concerned with Malaysia, as the survey analyses are based on the perceptions and opinions of the Malaysian businessmen and officials. Therefore, it is important also to identify the GCC countries perceptions on the same issues in revealing Malaysia's strengths and opportunities in the region.

10.6 Epilogue

This study has been aimed at exploring and analysing bilateral trade relations between Malaysia and the GCC counties as well as Malaysian traders' views on the GCC market. In doing so, qualitative and quantitative methods, and primary and secondary data were utilised. The empirical analyses have provided valuable results and indicated strengths, weaknesses, opportunities and threats. This study, thus, has fulfilled its aims and objectives; and hence, is now completed.

Appendices

Appendix 1 : Malaysia's trade with Major Trading Partners

Table A. 10-1: Malaysia's trade with Major Trading Partners 2006

Trade with Major Trading Partners, 2006							
Country	2006						
	Total Trade (RM million)	Share (%)	Exports (RM million)	Share (%)	Imports (RM million)	Share (%)	Balance of Trade (RM million)
Total	**1,069,738.00**	**100**	**588,965.50**	**100**	**480,772.50**	**100**	**108,192.90**
USA	170,796.30	16	110,586.20	18.8	60,210.10	12.5	50,376.10
Singapore	146,938.10	13.7	90,750.60	15.4	56,187.50	11.7	34,563.00
Japan	115,783.00	10.8	52,214.60	8.9	63,568.30	13.2	-11,353.70
China	100,886.10	9.4	42,660.40	7.2	58,225.70	12.1	-15,565.30
Thailand	57,453.10	5.4	31,176.80	5.3	26,276.30	5.5	4,900.50
Republic of Korea	47,201.40	4.4	21,290.80	3.6	25,910.60	5.4	-4,619.80
Taiwan	42,263.30	4	16,043.50	2.7	26,219.80	5.5	-10,176.30
Hong Kong	41,794.10	3.9	29,143.90	4.9	12,650.30	2.6	16,493.60
Germany	33,836.90	3.2	12,774.40	2.2	21,062.50	4.4	-8,288.10
Indonesia	33,081.50	3.1	14,915.60	2.5	18,165.90	3.8	-3,250.20
Australia	25,594.40	2.4	16,710.70	2.8	8,883.70	1.8	7,827.00
Netherlands	24,803.70	2.3	21,429.10	3.6	3,374.60	0.7	18,054.50
India	23,667.40	2.2	18,783.20	3.2	4,884.20	1	13,899.00
Philippines	18,613.40	1.7	7,973.50	1.4	10,639.90	2.2	-2,666.40
Ukraine	17,523.10	1.6	10,714.10	1.8	6,808.90	1.4	3,905.20
France	15,637.70	1.5	7,941.90	1.3	7,695.80	1.6	246.1
United Arab Emirates	11,861.20	1.1	8,311.50	1.4	3,549.80	0.7	4,761.70
Viet Nam	11,635.50	1.1	6,452.40	1.1	5,183.20	1.1	1,269.20
Saudi Arabia	10,488.90	1	1,944.00	0.3	8,544.90	1.8	-6,601.00
Italy	7,813.70	0.7	3,622.60	0.6	4,191.10	0.9	-568.6
Switzerland	6,219.80	0.6	1,555.70	0.3	4,664.10	1	-3,108.50
Canada	6,170.50	0.6	3,766.80	0.6	2,403.80	0.5	1,363.00
Spain	4,641.90	0.4	3,426.30	0.6	1,215.50	0.3	2,210.80
Ireland	4,589.00	0.4	1,637.40	0.3	2,951.50	0.6	-1,314.10
Brazil	4,367.40	0.4	1,834.20	0.3	2,533.20	0.5	-699
South Africa	4,154.00	0.4	2,447.20	0.4	1,706.80	0.4	740.4
Mexico	4,151.00	0.4	3,359.10	0.6	791.9	0.2	2,567.20
Iran	3,752.20	0.4	1,615.90	0.3	2,136.30	0.4	-520.3
New Zealand	3,712.90	0.3	2,475.20	0.4	1,237.80	0.3	1,237.40
Belgium	3,706.60	0.3	2,253.90	0.4	1,452.70	0.3	801.2
Oman	3,609.00	0.3	365.9	0.1	3,243.00	0.7	-2,877.10
Sweden	3,485.50	0.3	1,257.20	0.2	2,228.20	0.5	-971
Finland	3,430.10	0.3	2,476.80	0.4	953.3	0.2	1,523.50
Pakistan	3,306.00	0.3	3,088.60	0.5	217.4	neg.	2,871.20
Argentina	2,702.60	0.3	479	0.1	2,223.50	0.5	-1,744.50
Turkey	2,577.40	0.2	2,346.90	0.4	230.5	neg.	2,116.40
Russia	2,530.50	0.2	1,723.10	0.3	807.5	0.2	915.6
Sri Lanka	2,038.70	0.2	1,958.90	0.3	79.8	neg.	1,879.00
Denmark	1,838.10	0.2	1,323.40	0.2	514.8	0.1	808.6
Austria	1,769.70	0.2	1,038.90	0.2	730.8	0.2	308.1
Kuwait	1,716.20	0.2	586.1	0.1	1,130.10	0.2	-544
Hungary	1,669.90	0.2	1,473.00	0.3	196.9	neg.	1,276.10
Costa Rica	1,649.40	0.2	140.8	neg.	1,508.60	0.3	-1,367.90
Bangladesh	1,632.20	0.2	1,548.50	0.3	83.7	neg.	1,464.90
Brunei	1,543.80	0.1	1,267.70	0.2	276.1	0.1	991.6
Egypt	1,432.50	0.1	1,254.10	0.2	178.4	neg.	1,075.70
Yemen	1,151.30	0.1	960.2	0.2	191.1	neg.	769.1
Czech Rep.	1,101.60	0.1	890.8	0.2	210.7	neg.	680.1
Myanmar	1,064.70	0.1	605.9	0.1	458.8	0.1	147.1

Source: Ministry of International Trade and Industry Malaysia (MITI)

Appendix 2 : GCC Countries: Recent Key Structural Reforms

Financial Sector	
Bahrain	Issued the first Islamic government bills to complement the working of the Islamic financial institutions; took steps toward improving prudential regulations for Islamic banking; ratified anti-money laundering legislation in 2001; and enforced Bahrain Stock Exchange rules and regulations.
Kuwait	Adopted a foreign investment law allowing foreigners to own and trade shares of joint-stock companies listed on the Kuwait Stock Exchange, subject to specific limits.
Oman	Expanded repossession facilities to the interbank market; implemented a capital market law to restructure the Muscat Securities Market into three separate bodies dealing with regulations, trading and exchange, and depository registration; and adopted a new banking law in 2000. The central bank has reactivated the issuance of certificates of deposits to manage liquidity, and implemented measures to reduce the risk of over-lending to individuals, corporations, and their related parties. Oman has taken steps toward full compliance with the Financial Action Task Force (FATF) recommendations on money laundering and combating the financing of terrorism. The central bank is also strengthening risk-management assessment.
Qatar	Removed interest ceilings on local currency deposits in February 2001; strengthened bank supervision, resulting in tightening of nonperforming loan criteria; and introduced a new scheme to enhance liquidity management. Under this scheme, commercial banks can deposit their excess liquidity with, or borrow from, the central bank at rates determined by the central bank, which are fixed on a daily basis.
Saudi Arabia	Allowed foreigners to trade on the stock market through open-ended mutual funds and approved a new capital markets law to deepen the financial markets and strengthen the stock market.
United Arab Emirates	Established formal stock markets in 2000, and regulatory body for capital markets; enacted a new Securities Law to address volatility and malpractices that plagued security markets in 1997 and 1998, and adopted comprehensive anti-money laundering legislation along with combating the financing of terrorism in January 2002. The central bank is implementing a comprehensive pilot risk-management module for banks.
Foreign Direct Investment	
Bahrain	Eased rules on non-GCC firms to own buildings and lease land; established a one-stop shop to facilitate licensing procedures; and permitted foreign ownership to increase from 49 to 100 percent of businesses in all but a few strategic sectors (e.g., oil and aluminium).
Kuwait	Passed a law allowing foreigners to own 100 percent of Kuwaiti companies and reduced corporate taxes from 55 percent to 25 percent. Established Foreign Investment Capital Office to process foreign direct investment applications.
Oman	Allowed 100 percent foreign ownership of companies in most sectors; reduced income tax disparity between Omani and foreign companies by raising the single rate for the former from 7.5 percent to 12 percent and lowering the rates for the latter from 15–50 percent to 5–30 percent; redefined "foreign" company as one with more than 70

	percent foreign ownership instead of currently 49 percent; and allowed foreign, non-GCC, firms to own buildings and lease land. Opening up the service sector to full foreign ownership in line with WTO agreements, starting in 2003 with the information technology sector.
Qatar	Allowed 100 percent foreign ownership in agriculture, industry, health, education, and tourism sectors, and streamlined investment approval procedures. Reduced maximum corporate tax from 35 percent to 30 percent.
Saudi Arabia	Enacted a new Investment Law and established the associated investment authority (SAGIA) to facilitate foreign direct investment processing, including the establishment of a one-stop shop. Allowed for 100 percent foreign ownership of business in most sectors, including gas, power generation, water desalination, and petrochemicals. Cut the highest corporate income tax on foreign investment from 45 percent to 30 percent. Permitted non-Saudis to own real estate for their business or residence, except in the two holy cities.
United Arab Emirates	Launched several new free trade zones intended to establish the emirate as a global centre for trade in gold bullion, research and development of technology, and financial activities. Relaxed restrictions for foreign investment in specific real estate projects.
State Enterprise Reform and Privatisation	
Bahrain	Privatised the Public Slaughter House and the capital's waste collection and incineration. Other privatisations are under way, including the public transport company (bus) and tourism facilities. The telecommunications and postal services sectors are being liberalised.
Kuwait	The privatisation law, approved by the Finance Committee of the National Assembly, established a comprehensive framework for large-scale privatisation, identified areas and modes of privatisation, and set up a pricing mechanism and safeguards against job losses. The government plans to offer for sale to the private sector most of the 62 public sector entities still under its control.
Oman	The power sector is at the forefront of privatisation efforts, with three power plants now under construction by foreign investors under a build-own-operate basis. Existing government power plants are being restructured for their future privatisation. Oman has also recently privatised the management of airport services. Other services to be privatised in the near future include water distribution, waste water network, postal services, and telecommunications. The government also plans to gradually sell its participation in the few remaining non-oil public companies listed in the local stock market.
Qatar	Partially privatised the Telecommunications Company at end-1998. Corporatised the electricity and water sector and sold most of the government's power generation plants to Qatar Electricity and Water Company, which is majority-owned by the local private sector. Construction is under way of the first independent power and water plant, which is majority-owned by a foreign developer. Sold 60 percent of the government's stake in a recently created company—spun off from Qatar Petroleum—to take over the local distribution of gasoline.

Saudi Arabia	Announced in June 2002 a new privatisation strategy under which autonomisation of management would be followed by deregulation (corporatisation) and ultimately private ownership. Twenty sectors are presently identified for privatisation, including telecommunications, electricity, industrial parks, postal services, water, railways, education, and air transportation. Saudi Arabia has recently privatised 30 percent of the Saudi Telecommunications Company. Eight regional electricity companies have been merged into the Saudi Electricity Company, and a regulatory authority was established to set tariff rates and regulate market access to new entrants.
United Arab Emirates	Embraced utility privatisation, embarking on new power projects through joint ventures with foreign investors, and selling some existing assets.
Labour Market Reform	
Bahrain	Recently developed a new National Employment Strategy that includes providing fiscal subsidies for training nationals in the private sector and financial aid for the unemployed. Introduced measures to improve general education standards, and vocational and technical training programmes, and increased employment quota of Bahrainis in small and medium-sized companies while abolishing the "free visa" system to expatriate labour force.
Kuwait	Established Manpower and Government Restructuring Programme (MGRP) in July 2001 to implement the labour law, provide unemployment benefits to unemployed Kuwaiti nationals, and provide training and facilitate employment of Kuwaiti nationals in the private sector. Approved, in September 2002, quotas for the proportion of Kuwaitis that private companies must employ; companies that fail to meet this target would be subject to a fine and sanctions such as exclusion from bidding for government contracts.
Oman	Introduced measures to improve vocational and technical training programmes, and set a uniform minimum wage for Omanis at RO 100 (plus RO 20 as transportation allowance) instead of the previous two-tiered (skilled/unskilled) minimum wage. The authorities are also modernizing the educational system at all levels. A new ministry of manpower was created in 2002 and a new labour law adopted in May 2003.
Qatar	Formally ended the policy of automatic employment for Qatari graduates. Now assists job seekers by maintaining information on job openings and by counselling and training. Established a department in the ministry of civil service with responsibility for this function.
Saudi Arabia	Created the Human Resources Development Fund (HRDF) - with financial participation of the private sector - to provide training of Saudi labour force in skills required by the private sector, and development of a database for matching and placement of Saudi workers in the private sector.
United Arab Emirates	Established the National Human Resource Development and Employment Authority to help improve skills of U.A.E nationals looking for jobs; and established a national labour market database to facilitate nationals' job searches.

Source: Fasano and others (2003)

Appendix 3 : Main trade-related laws and regulations

Title	Year of issue
General legislation	
Countervailing and Anti-Dumping Duties Act	1993
Countervailing and Anti-Dumping Regulations	1994
Customs procedures	
Customs Act	1967
Free Zone Act	1990
Excise Act	1976
Intellectual property	
Patent Act	1983 (amended 2001)
Copyrights Act	1987 (amended 2003)
Industrial Designs Act	1996
Layout Designs of Integrated Circuits Act	2000
Geographical Indications Act	2000
Protection of New Plant Varieties Act	2004
Sector specific	
Legal Profession Act	1976
Banking and Financial Institutions Act	1989
Communications and Multimedia Act	1998
Accountants Act	1967 (under review)
Environmental Quality Act	1974
Foreign investment	
Promotion of Investment Act	1986
Industrial Coordination Act	1975

Source: Malaysian authorities.

Appendix 4 : Malaysia's Tariff Structure

Malaysia

Part A.1 Tariffs and imports: Summary and duty ranges

Summary		Total	Ag	Non-Ag
Simple average final bound		25.7	83.4	14.9
Simple average MFN applied	2008	8.8	14.7	8
Trade weighted average	2007	4.7	19.9	3.9
Imports in billion US$	2007	129.3	6.6	122.7

WTO member since		1995
Binding coverage:	Total	83.7
	Non-Ag	81.3
Ag: Tariff quotas (in %)		4.7
Ag: Special safeguards (in %)		5.6

Part A.2 Tariffs and imports by product groups

Product groups	Final bound duties				MFN applied duties			Imports	
	AVG	Duty-free in %	Max	Binding in %	AVG	Duty-free in %	Max	Share in %	Duty-free in %
Animal products	34.4	9.2	168	98.8	3.8	87.8	50	0.3	91.1
Dairy products	35.7	5	*420*	100	4.8	44.8	50	0.3	86.2
Fruit, vegetables, plants	155.8	11.8	*> 1000*	100	4.9	64.1	*120*	0.6	80.2
Coffee, tea	21.5	4.2	*95*	100	8.8	29.2	25	0.6	87.3
Cereals & preparations	16.8	18.8	*593*	100	5	57.5	50	1.3	62.5
Oilseeds, fats & oils	32.2	4.3	*> 1000*	100	1.8	66.9	20	0.9	76.5
Sugars and confectionery	20.8	0	*64*	100	2.8	81.3	15	0.4	92.7
Beverages & tobacco	416.3	0	*> 1000*	100	164.5	10.4	*> 1000*	0.3	1.7
Cotton	4	20	5	100	0	100	0	0	100
Other agricultural products	16.8	27.6	*> 1000*	99.3	0.7	92.9	25	0.3	97
Fish & fish products	7.9	50.8	40	56.1	1.8	79.5	20	0.4	90.2
Minerals & metals	17.9	0.1	30	64.8	11.4	48.5	60	13.4	61.1
Petroleum	5	0	5	100	0.8	84.7	5	8.2	66.7
Chemicals	11.9	0.8	*113*	74.3	3.3	81.9	50	8.1	73.8
Wood, paper, etc.	18.5	3.5	35	87.9	10.3	44.8	40	2.1	55.9
Textiles	18.9	0	35	98.5	10.6	23.9	30	1.1	25.9
Clothing	20.7	0	30	98.3	15.9	17.5	20	0.2	5.9
Leather, footwear, etc.	21.5	0	40	87	14	39.4	40	1.2	62.4
Non-electrical machinery	9.1	8.8	40	87.8	3.6	74.9	35	12.4	84.7
Electrical machinery	13.6	26.3	30	89.1	6.5	58.4	50	39.1	90.7
Transport equipment	14.2	3.9	35	61.5	12.1	39.3	50	4.3	51.2
Manufactures, n.e.s.	9.9	19.1	35	90.8	5.3	66.2	50	4.3	89.9

Appendix 6 : Questionnaire survey

Durham University

Date: _____

Business survey on Malaysian traders' experience towards the GCC markets

To: Tan Sri/Dato'/Datin/Tuan/Puan

I am a PhD student studying at Durham University, United Kingdom and currently conducting a research in the area of international trade. My research focuses on to trade relations between Malaysia and the GCC countries. The purpose of this questionnaire is to find out the experience and perceptions of the traders with regard to the mutual trade opportunities.

Please answer the questions below which should not take much of your time. For most questions, tick the box(es) most applicable to you and for others, you would need to rank according to your preferences.

All your responses will be treated as confidential. You may contact me via email m.f.abu-hussin@dur.ac.uk for any queries you might have. I would like to express my utmost gratitude for volunteering to participate in this survey. Not only is this survey important to my research, but also, I believe that it can be of great benefit to the future of trade relation between Malaysia and GCC.

Section A: Background

A1 In what field is the main activity of your business?

1 ☐ Manufacturing
2 ☐ Hotel / Restaurant / Tourism
3 ☐ Construction / Real estate
4 ☐ Agriculture
5 ☐ Oil / Gas / Petrochemical
6 ☐ Transport / Communication
7 ☐ Retail / wholesale
8 ☐ Banking / Financial Services
9 Other: _____

A2 Approximately what are the annual sales (turnover) of your business?

1 ☐ Less than US$ 5 million
2 ☐ US$ 5 million - US$20 million
3 ☐ US$ 21 million - US$50million
4 ☐ More than US$ 50 million
5 ☐ Unable to disclosure

A3 Approximately how many people does your company employ?

1 ☐ < 10
2 ☐ 11 - 50
3 ☐ 51 – 100
4 ☐ 101 - 250
5 ☐ 251 - 500
6 ☐ 501 - 1000
7 ☐ > 1000

A4 On a scale 1 to 4 where 1 = "most" and 4 = "least", please indicate which region do you export most to? (rank "0" if a particular region is not exported to)

☐	United State	☐	Europe Union	☐	Asia
☐	Middle East	☐	Africa	☐	Other: _____

A5 Do you export / import to/from Gulf Cooperation Council (GCC) countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and UAE)?

1 ☐ Yes (if Yes, please continue to the section B)
2 ☐ No (if no, please continue to the section C)

Section B: "We trade with the GCC countries"

B1 Which country in the GCC country do you export most? (please rank in order, rank "0" if a particular country is not exported to)

☐ Bahrain	☐ Qatar
☐ Kuwait	☐ Saudi Arabia
☐ Oman	☐ UAE

B1.1 Based on the above question, the following statements describe potential motivations to export in the GCC countries. Please provide your opinion on the following statements. (Please tick (√) in an appropriate box). We export most to the particular country because of;

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
a. Excellent logistic facilities in the country	☐	☐	☐	☐	☐
b. Excellent financial facilities in the country	☐	☐	☐	☐	☐
c. Political stability in the country	☐	☐	☐	☐	☐
d. Malaysian government has strong relationship with the country	☐	☐	☐	☐	☐
e. There is no language barrier	☐	☐	☐	☐	☐
f. Low and acceptable taxes rates	☐	☐	☐	☐	☐
g. Religious affinity	☐	☐	☐	☐	☐
h. Others: _____	☐	☐	☐	☐	☐

B2 How long have you been trading with the GCC countries?

1☐ < 5 years 2☐ 6 – 10 years 3☐ 11 – 15 years 4☐16 – 20 years 5☐ > 20 years

B3 Based on your experience, what do you think about the GCC market?

1☐Very good 2☐Good 3☐Average 4☐Bad 5☐Very bad

B4 Have you encountered any obstacles while you trade with the country in GCC? (tick all that apply)

1☐Tax: High rates of tax or complex rules
2☐Testing certification or approval procedures
3☐National specification requiring modifications
4☐Environmental regulations
5☐Health and safety regulations
6☐Language
7☐Security issues
8 Other: _____

B5 Which area of the GCC countries' industry do you think offer huge opportunity for your business? (tick all that apply)

☐ Manufacturing	☐ Property investment/real estate	☐ Construction / Real estate
☐ Agriculture	☐ Halal Food / Beverage	☐ Transportation/Communication
☐ Retail/ wholesale	☐ Hotel / Restaurant/tourism	☐ Oil / Gas Petrochemical

B6 In rating between 1 – 10, what do you think is the growth potential of your business prospect in GCC countries? (1 = low, 10 = high)

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐ 6 ☐ 7 ☐ 8 ☐ 9 ☐ 10 ☐

B7 Are your exports from Malaysia financed by GCC based banks or Malaysian banks?

1 ☐Malaysian banks *2* ☐GCC based banks *3* ☐None of these _____

B8 Would you consider having a joint venture with a GCC local firm?

1☐Yes *2*☐No *3*☐Not sure

B8.1 If Yes, how sure are you that your standard of quality services will be maintained if you operated jointly with a local firm in GCC countries?

1☐Very sure 2☐Sure 3☐Neutral 4☐Unsure 5☐Very unsure

B9 We would like to know your opinion on the prospect of Free Trade Agreement (FTA) between Malaysia and GCC countries

Statements	Strongly Disagree	Disagree	Neither agree or disagree	Agree	Strongly Agree
a. Our business is looking forward for a FTA between Malaysia and GCC countries	☐	☐	☐	☐	☐
b. FTA between Malaysia and GCC countries will increase trade between the countries	☐	☐	☐	☐	☐
c. FTA between Malaysia and GCC countries does not affect our business	☐	☐	☐	☐	☐
d. Implementation of FTA between Malaysia and GCC countries will decrease Malaysian businesses competitiveness in the Gulf region	☐	☐	☐	☐	☐

- Please continue to section D -

Section C: "We do not trade with the GCC countries"

C1 Has your business been advised or received any promotion on GCC market opportunities?

1☐Yes 2☐No

C2 Among the GCC countries, which country is most attractive for doing a business with? (please rank in order and leave the box blank if the country is not attracted for business)

☐	Bahrain	☐	Qatar
☐	Kuwait	☐	Saudi Arabia
☐	Oman	☐	UAE

C2.1 Based on the above question, please give your opinion on the following statements as to why the Gulf Cooperation Council Countries are attractive for doing a business with because:

Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
e. Excellent logistic facilities in the country	☐	☐	☐	☐	☐
f. Excellent financial facilities in the country	☐	☐	☐	☐	☐
g. Political stability in the country	☐	☐	☐	☐	☐
h. Huge demand for my business in the country	☐	☐	☐	☐	☐
i. Others: _____	☐	☐	☐	☐	☐

C3 How far do you agree with this statement "Malaysian government organizes trade delegations, conferences and exhibitions in order to encourage trade activity with GCC countries"

1☐ Strongly Agree 2☐Agree 3☐Neither agree or Disagree 4☐Disagree 5☐Stronlgy disagree

C4 My company is planning to exports our product to GCC countries in the future.

1☐Yes 2☐No 3☐Not sure

C5 Would your company prefer to invest in GCC businesses rather than exporting directly?

1☐Yes 2☐No 3☐May be

C6 Which area of the GCC countries' industry do you think offer huge opportunity for your business? Tick all that apply

☐	Manufacturing	☐	Hotel/Restaurant/Tourism	☐	Construction / Real estate
☐	Agriculture	☐	Oil / Gas / Petrochemical	☐	Transportation/Communication
☐	Retail/wholesale	☐	Banking / Financial Services	☐	Others: _____

C7 In your opinion, what are currently the main obstacles for your business to penetrate to the GCC market? (tick all that apply)

1☐Restrictive regulations 4☐Low level of competitiveness of Malaysian

market

2 ☐ Lack of promotion
5 ☐ Lack of government support
3 ☐ Exchange rate
6 ☐ Language
7 ☐ Security issues
8 ☐ Lack of capital
9 Other: _____

C8 We would like to know your opinion on the prospect of Free Trade Agreement (FTA) between Malaysia and GCC countries

	Strongly Disagree	Disagree	Neither agree or disagree	Agree	Strongly Agree
j. Our business is looking forward for a FTA between Malaysia and GCC countries	☐	☐	☐	☐	☐
k. FTA between Malaysia and GCC countries will increase trade between the countries	☐	☐	☐	☐	☐
l. Implementation of FTA between Malaysia and GCC countries will decrease Malaysian businesses competitiveness in the Gulf region	☐	☐	☐	☐	☐

- Continue to the next section -

Section D

Any comment related to GCC market / trade opportunity

Respondent's detail (or attach your business card here)

A	Your position	
B	Name	
C	Tel Number	
D	Email	
E	Your religion	

Appendix 7 : Request for interview

Durham University

School of Government and International Affairs

Shaped by the past, creating the future

10th November 2008

To Whom It May Concern,

Request for interview on the subject of GCC – Malaysia economic relation (PhD research purpose)

I am a doctoral research candidate at the Institute for Middle Eastern and Islamic Studies, University of Durham. My doctoral research is on promoting the economic and trade relation among Muslim countries specifically on the GCC countries trade relation with Malaysia.

2. I am based at Durham University and doing my fieldwork at Malaysia from 10 Oct 2008 – 6 December 2008. My fieldwork involves interviewing decision makers, trade chambers, and academicians towards their opinion on the GCC market and the economic relation between the GCC Countries and Malaysia.
3. I appreciate your fully busy schedule but an opportunity to interview you at any time during my fieldwork (until 6 December 2008) would be great benefit to my research. The purpose of the interview would be exclusively for the academic purposes and to enable me to have a better understanding on first hand Malaysian views and opinions on the Malaysia – GCC economic and trade relation. Should you have no problem with my request, I would appreciate if you could give suitable time and an exact date for the interview session.
4. However, if you wish to answer the interview questions through email, I attach here the list of interview questions and you may answer the question accordingly. I appreciate your cooperation in answering all the questions and reply to my email at fauzihussin@yahoo.co.uk.

I prefer to meet you to conduct this survey and I am looking forward to get your personal response to the questions as well as your general views on the issues. I also attach here a recommendation letter from my supervisor regarding my research.

I am looking forward to hearing from you.

Yours sincerely,

Mohd Fauzi ABU HUSSIN
PhD Researcher,
University of Durham, UK
Email: fauzihussin@yahoo.co.uk
Tel: 013-246 7603

Appendix 8 : Interview's questionnaires

Contact: Mohd Fauzi Abu- Hussin
Tel: 0132467603
Email: m.f.abu-hussin@dur.ac.uk
fauzihussin@yahoo.co.uk

This list of questions is proposed for interview survey with Malaysian authorities:

1. Malaysia and GCC countries are the members of the Organisation of Islamic Countries (OIC) and one of the OIC objectives is to enhance their economic relations, having said that, do you think that both parties have done well to strengthen their economic relation?
2. What is your opinion on GCC market and which country most benefited Malaysia?
3. How active are Malaysian businessmen in GCC countries and which country is most attracted to the Malaysian businessmen?
4. How active is the GCC businesses in Malaysia?
5. How important do you think GCC market to the Malaysian economic development?
6. How many trade and economic agreements have been signed between Malaysia and GCC/ individual country?
7. The recent trends show that GCC countries trade activities have been directed to the Asian countries mainly China and India. GCC countries also have a policy named "look to the east policy", in your opinion, how can Malaysia utilise this development accordingly and how can Malaysia capitalise GCC market?
8. What do you think about the ASEAN – GCC free trade negotiation, will the negotiation influences Malaysian economic relation with the GCC?
9. In your opinion, what is the main obstacle on Malaysia – GCC economic relation, and how could this be overcome?
10. What would you suggest for the future relation between Malaysia and Gulf Cooperation Council Countries?

Appendix 9 : Composition of Malaysia Imports

Table 10-1: Malaysia top ten source for crude and non crude fuels products

Partner Name	1998	1999	2000	2001	2005	2006	2007
Singapore	72.66%	61.64%	51.21%	47.53%	43.50%	36.92%	40.08%
GCC Countries Group	16.75%	24.17%	33.54%	30.28%	33.29%	38.20%	31.53%
Saudi Arabia	10.22%	13.94%	15.00%	15.70%	17.23%	19.86%	14.67%
Vietnam	0.00%	5.82%	6.78%	3.64%	7.29%	7.33%	7.55%
United Arab Emirates	6.52%	3.19%	5.60%	2.09%	6.89%	7.03%	8.35%
Oman	0.00%	4.33%	10.50%	10.55%	6.17%	8.32%	3.87%
Iran, Islamic Rep.	2.31%	1.92%	2.57%	3.71%	3.94%	5.04%	3.09%
China	0.02%	0.03%	0.02%	0.38%	2.72%	0.45%	0.09%
Kuwait	0.00%	0.79%	0.93%	0.88%	2.68%	2.47%	4.55%

Source: Author's own calculation based on UN COMTRADE database, obtained from World Integrated Trade Solution (WITS)

Appendix 10 : SME's Definition

Table A. 10-2: SME Definition based on number of full-times employees

Sector / Size	Primary Agriculture	Manufacturing (including Agro-Based) & MRS	Services Sector (including ICT)
Micro	Less than 5 employees	Less than 5 employees	Less than 5 employees
Small	Between 5 & 19 employees	Between 5 & 50 employees	Between 5 & 19 employees
Medium	Between 20 & 50 employees	Between 51 & 150 employees	Between 20 & 50 employees

Source: Malaysia's Small Medium Industries Development Corporation (SMIDEC), http://www.smidec.gov.my/

Table A. 10-3: SME Definition based on annual sales turnover

Sector / Size	Primary Agriculture	Manufacturing (including Agro-Based) & MRS	Services Sector (including ICT)
Micro	Less than 5 employees	Less than 5 employees	Less than 5 employees
Small	Between 5 & 19 employees	Between 5 & 50 employees	Between 5 & 19 employees
Medium	Between 20 & 50 employees	Between 51 & 150 employees	Between 20 & 50 employees

Source: Malaysia's Small Medium Industries Development Corporation (SMIDEC), http://www.smidec.gov.my/

Appendix 11 : GCC Countries Tariff Structure

Bahrain

Part A.1 **Tariffs and imports: Summary and duty ranges**

Summary		Total	Ag	Non-Ag	WTO member since		1995
Simple average final bound		34.4	38.9	33.4	Binding coverage:	Total	73.6
Simple average MFN applied	2008	5.2	8.6	4.7		Non-Ag	69.6
Trade weighted average	2007	5.8	22.6	4.9	Ag: Tariff quotas (in %)		0
Imports in billion US$	2007	11.3	0.6	10.7	Ag: Special safeguards (in %)		0

Part A.2 **Tariffs and imports by product groups**

Product groups	Final bound duties				MFN applied duties			Imports	
	AVG	Duty-free	Max	Binding	AVG	Duty-free	Max	Share	Duty-free
		in %		in %		in %		in %	in %
Animal products	35	0	35	100	3.4	30.5	5	0.7	15.1
Dairy products	35	0	35	100	5	0	5	0.7	0
Fruit, vegetables, plants	35	0	35	100	3.3	32.7	5	0.8	65.7
Coffee, tea	35	0	35	100	3.1	37.5	5	0.3	32.1
Cereals & preparations	35	0	35	100	3.5	30	5	1.1	38.8
Oilseeds, fats & oils	35	0	35	100	4.9	2.8	5	0.2	0
Sugars and confectionery	35	0	35	100	3.8	25	5	0.2	64.3
Beverages & tobacco	100.1	0	200	100	70.9	0.7	200	1.2	0
Cotton	35	0	35	100	5	0	5	0	0
Other agricultural products	35	0	35	100	4.9	11	125	0.1	15.4
Fish & fish products	-	-	-	0	3.3	34.4	5	0.1	29.2
Minerals & metals	34.9	0.3	35	70.2	4.9	2.3	5	9.4	0.4
Petroleum	35	0	35	50	5	0	5	52.1	0
Chemicals	34.8	0.6	35	19.2	4.4	11	5	10.2	7.4
Wood, paper, etc.	37.8	0	100	27.8	4.7	5.1	5	1.9	2.4
Textiles	35	0	35	98	5	0.2	5	1	0.9
Clothing	35	0	35	100	5	0	5	0.6	0
Leather, footwear, etc.	35	0	35	37.7	5	0	5	0.6	0
Non-electrical machinery	32.2	7.9	35	100	4.8	4.9	5	6.3	10.3
Electrical machinery	26.3	25	35	100	4	20.9	5	3	6.6
Transport equipment	35	0	35	100	4	19.2	5	8.7	0.4
Manufactures, n.e.s.	32.2	8.1	35	98.2	4.7	6.2	5	1.1	6

Kuwait

Part A.1 **Tariffs and imports: Summary and duty ranges**

Summary		Total	Ag	Non-Ag	WTO member since		1995
Simple average final bound		100	100	100	Binding coverage:	Total	100
Simple average MFN applied	2008	4.7	5.2	4.7		Non-Ag	100
Trade weighted average					Ag: Tariff quotas (in %)		0
Imports in billion US$					Ag: Special safeguards (in %)		0

Part A.2 **Tariffs and imports by product groups**

Product groups	Final bound duties				MFN applied duties			Imports	
	AVG	Duty-free	Max	Binding	AVG	Duty-free	Max	Share	Duty-free
		in %		in %		in %		in %	in %
Animal products	100	0	100	100	3.1	30.5	5		
Dairy products	100	0	100	100	5	0	5		
Fruit, vegetables, plants	100	0	100	100	3.3	32.7	5		
Coffee, tea	100	0	100	100	3.1	37.5	5		
Cereals & preparations	100	0	100	100	3.5	30	5		
Oilseeds, fats & oils	100	0	100	100	4.9	2.8	5		
Sugars and confectionery	100	0	100	100	3.8	25	5		
Beverages & tobacco	100	0	100	100	31.6	0.7	100		
Cotton	100	0	100	100	5	0	5		
Other agricultural products	100	0	100	100	4.4	11	5		
Fish & fish products	100	0	100	100	3.3	34.4	5		
Minerals & metals	100	0	100	100	4.9	2.3	5		
Petroleum	-	-	-	0	5	0	5		
Chemicals	100	0	100	100	4.4	11	5		
Wood, paper, etc.	100	0	100	100	4.7	5.1	5		
Textiles	100	0	100	100	5	0.2	5		
Clothing	100	0	100	100	5	0	5		
Leather, footwear, etc.	100	0	100	100	5	0	5		
Non-electrical machinery	100	0	100	100	4.8	4.9	5		
Electrical machinery	100	0	100	100	4	20.9	5		
Transport equipment	100	0	100	100	4	19.2	5		
Manufactures, n.e.s.	100	0	100	100	4.7	6.2	5		

Oman

Part A.1 **Tariffs and imports: Summary and duty ranges**

Summary		Total	Ag	Non-Ag	WTO member since		2000
Simple average final bound		13.8	28	11.6	Binding coverage:	Total	100
Simple average MFN applied	2008	5.7	12.4	4.7		Non-Ag	100
Trade weighted average	2007	5.1	8.9	4.7	Ag: Tariff quotas (in %)		0
Imports in billion US$	2007	16	1.6	14.4	Ag: Special safeguards (in %)		0

Part A.2 **Tariffs and imports by product groups**

Product groups	Final bound duties				MFN applied duties			Imports	
	AVG	Duty-free	Max	Binding	AVG	Duty-free	Max	Share	Duty-free
		in %		in %		in %		in %	in %
Animal products	60.6	0	200	100	24.6	30.5	100	1.5	36.3
Dairy products	17	0	75	100	5	0	5	1.6	0
Fruit, vegetables, plants	19.9	0	100	100	5.1	32.7	100	1.2	66.1
Coffee, tea	15	0	15	100	7.1	37.5	100	0.5	33.6
Cereals & preparations	13.8	0	75	100	3.5	30	5	2.5	66.8
Oilseeds, fats & oils	19.7	0	200	100	8.2	2.8	100	0.9	6.8
Sugars and confectionery	13.4	0	15	100	4.4	25	100	0.3	75.8
Beverages & tobacco	112.1	0	200	100	65.9	0.7	*200*	1.1	0
Cotton	13	0	15	100	5	0	5	0	0
Other agricultural products	14.7	0	20	100	6.3	11	100	0.3	21.2
Fish & fish products	19.1	0	20	100	3.3	34.4	5	0.2	30.3
Minerals & metals	14.4	1.8	20	100	4.9	2.3	5	20.8	2.3
Petroleum	20	0	20	100	5	0	5	3	0
Chemicals	5.4	10.9	15	100	4.4	11.1	5	6.8	14
Wood, paper, etc.	7.5	1	15	100	4.7	5.1	5	2.7	6.1
Textiles	14.9	0.2	15	100	5	0.2	5	1.2	1.1
Clothing	15	0	15	100	5	0	5	0.6	0
Leather, footwear, etc.	14.5	3.1	15	100	5	0	5	1.2	0
Non-electrical machinery	11	14.6	15	100	4.8	4.9	5	18.5	5.5
Electrical machinery	9.7	34.3	15	100	4	20.9	5	7.2	22.7
Transport equipment	11.9	4.5	15	100	4	19.2	5	25.6	4.2
Manufactures, n.e.s.	12.4	12	15	100	4.7	6.2	5	2.3	14.9

Qatar

Part A.1 **Tariffs and imports: Summary and duty ranges**

Summary		Total	Ag	Non-Ag
Simple average final bound		16	25.8	14.5
Simple average MFN applied	2008	5.1	8.5	4.7
Trade weighted average	2006	5.1	13	4.6
Imports in billion US$	2006	15.1	0.9	14.3

WTO member since		1996
Binding coverage:	Total	100
	Non-Ag	100
Ag: Tariff quotas (in %)		0
Ag: Special safeguards (in %)		0

Part A.2 **Tariffs and imports by product groups**

Product groups	Final bound duties				MFN applied duties			Imports	
	AVG	Duty-free	Max	Binding	AVG	Duty-free	Max	Share	Duty-free
		in %		in %		in %		in %	in %
Animal products	50.8	0	200	100	3.1	30.5	5	1.2	42.2
Dairy products	15.1	0	20	100	5	0	5	0.6	0
Fruit, vegetables, plants	14.8	0	15	100	3.3	32.7	5	0.9	59.4
Coffee, tea	19.8	0	20	100	3.1	37.5	5	0.3	28.9
Cereals & preparations	15.3	0	200	100	3.5	30	5	1.2	47.6
Oilseeds, fats & oils	14.7	0	15	100	4.9	2.8	5	0.2	2
Sugars and confectionery	20	0	20	100	3.8	25	5	0.1	47.9
Beverages & tobacco	111	0	200	100	67.6	0.7	200	0.8	0.3
Cotton	15	0	15	100	5	0	5	0	0
Other agricultural products	17.2	0	200	100	4.8	11	100	0.2	12.6
Fish & fish products	15	0	15	100	3.3	34.4	5	0.1	36.4
Minerals & metals	16.5	0	30	100	4.9	2.3	5	27	0.7
Petroleum	15	0	15	100	5	0	5	0.5	0
Chemicals	7.5	5.5	30	100	4.4	11	5	6.2	17.6
Wood, paper, etc.	17	0	30	100	4.7	5.1	5	3.5	5
Textiles	15	0.2	20	100	5	0.2	5	1.3	0.4
Clothing	20	0	20	100	5	0	5	1.3	0
Leather, footwear, etc.	16.8	0	20	100	5	0	5	1.2	0
Non-electrical machinery	14.9	0	15	100	4.8	4.9	5	25.7	7.2
Electrical machinery	18.6	0	20	100	4	20.9	5	13.6	25.4
Transport equipment	13.6	0	15	100	4	19.2	5	8.7	1.3
Manufactures, n.e.s.	14.9	0	20	100	4.7	6.2	5	5.3	8.2

Saudi Arabia

Part A.1 **Tariffs and imports: Summary and duty ranges**

Summary		Total	Ag	Non-Ag	WTO member since			2005
Simple average final bound		11.8	20.7	10.5	Binding coverage:		Total	100
Simple average MFN applied	2008	5.2	7.1	4.9			Non-Ag	100
Trade weighted average	2007	4.6	7.2	4.2	Ag: Tariff quotas (in %)			0
Imports in billion US$	2007	90.2	11.8	78.4	Ag: Special safeguards (in %)			0

Part A.2 **Tariffs and imports by product groups**

Product groups	Final bound duties				MFN applied duties			Imports	
	AVG	Duty-free in %	Max	Binding in %	AVG	Duty-free in %	Max	Share in %	Duty-free in %
Animal products	13	0.3	*40*	100	3.5	30.5	20	2	39.6
Dairy products	10.9	0	25	100	5	0	5	1.4	0
Fruit, vegetables, plants	12.2	0	40	100	3.4	32.4	40	1.3	56.7
Coffee, tea	9.3	0	15	100	3.8	37.5	15	0.6	49.1
Cereals & preparations	13	0	*45*	100	3.7	30	15	5	78.1
Oilseeds, fats & oils	11.4	0	15	100	4.9	2.8	5	1	27.6
Sugars and confectionery	12.4	0	20	100	4	25	10	0.5	84.1
Beverages & tobacco	180.6	0.7	*1000*	100	65.4	0.7	*429*	0.9	0.1
Cotton	13.2	0	15	100	5	0	5	0	0
Other agricultural products	13.2	0	15	100	4.4	11	5	0.4	35.5
Fish & fish products	10.9	0	15	100	3.3	34.4	5	0.3	32.8
Minerals & metals	13.1	1.8	20	100	5	3.2	15	18.2	4.1
Petroleum	6.1	0	10	100	5.2	0	10	0.1	0
Chemicals	5.4	11.5	15	100	4.8	11	20	9.1	35.5
Wood, paper, etc.	9	1	20	100	5.5	5.1	20	3	2.4
Textiles	14.1	0.2	15	100	5.3	0.2	15	1.9	0.9
Clothing	11.2	0	15	100	5	0	12	2	0
Leather, footwear, etc.	12.5	4.5	15	100	5.5	0	15	1.7	0
Non-electrical machinery	10.7	15	15	100	4.9	4.9	15	19.4	10.6
Electrical machinery	8	37.6	15	100	4.1	20.9	15	10	40.3
Transport equipment	11	4.5	15	100	4.4	19.2	15	17.4	12.8
Manufactures, n.e.s.	10.8	14.3	15	100	4.8	6.2	20	3.8	13.4

United Arab Emirates

Part A.1 **Tariffs and imports: Summary and duty ranges**

Summary		Total	Ag	Non-Ag			
					WTO member since		1996
Simple average final bound		14.7	25.4	13.1	Binding coverage:	Total	100
Simple average MFN applied	2008	5	7.1	4.7		Non-Ag	100
Trade weighted average					Ag: Tariff quotas (in %)		0
Imports in billion US$					Ag: Special safeguards (in %)		0

Part A.2 **Tariffs and imports by product groups**

Product groups	Final bound duties				MFN applied duties			Imports	
	AVG	Duty-free in %	Max	Binding in %	AVG	Duty-free in %	Max	Share in %	Duty-free in %
Animal products	37.8	0	200	100	3.4	30.5	5		
Dairy products	15	0	15	100	5	0	5		
Fruit, vegetables, plants	15	0	15	100	3.3	32.7	5		
Coffee, tea	15	0	15	100	3.1	37.5	5		
Cereals & preparations	15	0	15	100	3.5	30	5		
Oilseeds, fats & oils	19.9	0	200	100	4.9	2.8	5		
Sugars and confectionery	15	0	15	100	3.8	25	5		
Beverages & tobacco	132.3	0	200	100	50.7	0.7	*200*		
Cotton	15	0	15	100	5	0	5		
Other agricultural products	15	0	15	100	4.4	11	5		
Fish & fish products	15	0	15	100	3.3	34.4	5		
Minerals & metals	14.8	0	15	100	4.9	2.3	5		
Petroleum	15	0	15	100	5	0	5		
Chemicals	7.1	5.5	15	100	4.4	11	5		
Wood, paper, etc.	12	0	15	100	4.7	5.1	5		
Textiles	14.9	0.2	15	100	5	0.2	5		
Clothing	15	0	15	100	5	0	5		
Leather, footwear, etc.	15	0	15	100	5	0	5		
Non-electrical machinery	14.3	0	15	100	4.8	4.9	5		
Electrical machinery	15	0	15	100	4	20.9	5		
Transport equipment	13.8	0	15	100	4	19.2	5		
Manufactures, n.e.s.	14.3	0	15	100	4.7	6.2	5		

Source: http://stat.wto.org/TariffProfiles

Appendix 12 : Source of Malaysia's foreign direction investment

Table: SOURCES OF FOREIGN INVESTMENT IN APPROVED PROJECTS (2003 0 2007)

Country	*2003*	*%*	*2004*	*%*	*2005*	*%*	*2006*	*%*	*2007*	*%*	*2003 - 2007*	
Japan	1,295,794,177	8.3%	1,010,655,980	7.7%	3,671,721,963	20.5 %	4,411,582,988	21.8 %	6,522,739,241	19.5 %	16,912,494,349	16.9%
USA	2,181,730,334	13.9 %	1,058,826,199	8.1%	5,154,990,909	28.8 %	2,476,649,294	12.2 %	3,019,981,085	9.0%	13,892,177,821	13.8%
Singapore	1,224,917,366	7.8%	1,515,450,695	11.5 %	2,919,868,545	16.3 %	1,884,693,675	9.3%	2,952,175,965	8.8%	10,497,106,246	10.5%
Germany	170,309,161	1.1%	4,723,715,759	35.9 %	387,722,999	2.2%	232,287,597	1.1%	3,756,800,095	11.2 %	9,270,835,611	9.2%
Netherlands	316,202,479	2.0%	99,248,728	0.8%	1,673,996,910	9.4%	3,284,184,701	16.2 %	1,690,415,209	5.1%	7,064,048,027	7.0%
United Kingdom	3,870,432,484	24.7 %	152,748,579	1.2%	99,208,295	0.6%	641,983,444	3.2%	385,254,150	1.2%	5,149,626,952	5.1%
Australia	105,179,213	0.7%	116,529,792	0.9%	155,914,520	0.9%	2,560,053,181	12.7 %	1,685,051,556	5.0%	4,622,728,262	4.6%
United Arab Emirates	3,951,774,220	25.3 %	0	0.0%	0	0.0%	40,000,000	0.2%	42,500,000	0.1%	4,034,274,220	4.0%
India	47,010,936	0.3%	291,677,061	2.2%	558,895,477	3.1%	8,317,717	0.0%	2,923,717,459	8.7%	3,829,618,650	3.8%
Iran	1,900,000	0.0%	4,392,000	0.0%	0	0.0%	0	0.0%	3,067,759,766	9.2%	3,074,051,766	3.1%
Korea,Rep.	446,901,008	2.9%	324,626,110	2.5%	673,592,257	3.8%	437,825,114	2.2%	1,118,759,178	3.3%	3,001,703,667	3.0%
China	247,231,130	1.6%	187,105,378	1.4%	39,584,890	0.2%	134,052,932	0.7%	1,883,191,954	5.6%	2,491,166,284	2.5%
Taiwan	622,025,078	4.0%	414,544,636	3.2%	430,694,747	2.4%	405,451,042	2.0%	408,650,978	1.2%	2,281,366,481	2.3%
Cayman Islands	1,800,000	0.0%	57,264,065	0.4%	154,086,000	0.9%	860,500,000	4.3%	892,000,252	2.7%	1,965,650,317	2.0%
France	43,527,091	0.3%	137,441,276	1.0%	35,277,139	0.2%	85,026,200	0.4%	787,048,319	2.4%	1,088,320,025	1.1%
British Virgin Islands	33,400,000	0.2%	138,689,658	1.1%	13,445,250	0.1%	647,665,369	3.2%	49,352,386	0.1%	882,552,663	0.9%
Switzerland	13,488,586	0.1%	121,094,371	0.9%	563,234,355	3.1%	46,109,598	0.2%	61,269,400	0.2%	805,196,310	0.8%
Thailand	263,585,055	1.7%	36,870,000	0.3%	142,282,216	0.8%	109,462,220	0.5%	137,673,197	0.4%	689,872,688	0.7%
Lebanon	0	0.0%	0	0.0%	0	0.0%	562,291,898	2.8%	0	0.0%	562,291,898	0.6%
Indonesia	48,470,987	0.3%	86,695,999	0.7%	52,476,594	0.3%	214,889,222	1.1%	41,162,472	0.1%	443,695,274	0.4%
Norway	23,009,581	0.1%	0	0.0%	303,178,476	1.7%	114,000,000	0.6%	0	0.0%	440,188,057	0.4%
Hong Kong	102,653,568	0.7%	51,624,778	0.4%	105,430,448	0.6%	84,460,615	0.4%	59,781,174	0.2%	403,950,583	0.4%
Italy	10,491,640	0.1%	30,877,335	0.2%	41,268,480	0.2%	218,628,203	1.1%	52,153,198	0.2%	353,418,856	0.4%

Canada	3,027,363	0.0%	216,267,144	1.6%	70,804,450	0.4%	6,804,184	0.0%	53,055,000	0.2%	349,958,141	0.3%
Philippines	33,827,457	0.2%	215,416,000	1.6%	0	0.0%	1,000,000	0.0%	4,461,011	0.0%	254,704,468	0.3%
Bermuda	0	0.0%	0	0.0%	2,877,519	0.0%	80,000,000	0.4%	171,498,945	0.5%	254,376,464	0.3%
Denmark	8,847,029	0.1%	180,000,000	1.4%	30,613,000	0.2%	7,419,060	0.0%	10,978,776	0.0%	237,857,865	0.2%
Belgium	0	0.0%	0	0.0%	0	0.0%	0	0.0%	213,496,294	0.6%	213,496,294	0.2%
Panama	0	0.0%	0	0.0%	174,947,077	1.0%	20,907,500	0.1%	0	0.0%	195,854,577	0.2%
Sweden	33,500,000	0.2%	28,720,250	0.2%	35,860,000	0.2%	43,734,760	0.2%	54,000,000	0.2%	195,815,010	0.2%
Portugal	0	0.0%	0	0.0%	0	0.0%	179,775,000	0.9%	0	0.0%	179,775,000	0.2%
Spain	0	0.0%	9,676,207	0.1%	9,832,105	0.1%	0	0.0%	44,057,082	0.1%	63,565,394	0.1%
New Zealand	0	0.0%	53,451,886	0.4%	304,000	0.0%	0	0.0%	9,273,200	0.0%	63,029,086	0.1%
Turkey	646,800	0.0%	0	0.0%	0	0.0%	37,000,000	0.2%	19,687,236	0.1%	57,334,036	0.1%
Bahamas	0	0.0%	0	0.0%	0	0.0%	34,000,000	0.2%	10,650,000	0.0%	44,650,000	0.0%
Finland	200,000	0.0%	30,000,000	0.2%	1,460,000	0.0%	0	0.0%	9,027,004	0.0%	40,687,004	0.0%
Luxembourg	0	0.0%	0	0.0%	24,125,000	0.1%	0	0.0%	14,500,000	0.0%	38,625,000	0.0%
Mauritius	6,013,705	0.0%	0	0.0%	0	0.0%	26,521,952	0.1%	0	0.0%	32,535,657	0.0%
Brunei	0	0.0%	0	0.0%	0	0.0%	0	0.0%	31,069,168	0.1%	31,069,168	0.0%
Brazil	0	0.0%	0	0.0%	24,457,600	0.1%	0	0.0%	0	0.0%	24,457,600	0.0%
Egypt	3,000,000	0.0%	0	0.0%	0	0.0%	17,175,000	0.1%	532,190	0.0%	20,707,190	0.0%
Austria	5,192,240	0.0%	0	0.0%	12,354,000	0.1%	1,835,400	0.0%	0	0.0%	19,381,640	0.0%
Pakistan	0	0.0%	913,600	0.0%	2,241,530	0.0%	12,052,900	0.1%	2,353,400	0.0%	17,561,430	0.0%
Ireland	0	0.0%	0	0.0%	0	0.0%	0	0.0%	13,707,720	0.0%	13,707,720	0.0%
Bangladesh	0	0.0%	0	0.0%	9,150,950	0.1%	0	0.0%	0	0.0%	9,150,950	0.0%
Russian Federation	0	0.0%	0	0.0%	7,300,000	0.0%	0	0.0%	0	0.0%	7,300,000	0.0%
Peru	0	0.0%	0	0.0%	6,114,400	0.0%	0	0.0%	0	0.0%	6,114,400	0.0%
Macau	6,000,000	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	6,000,000	0.0%
South Africa	5,500,000	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	5,500,000	0.0%
Cyprus	0	0.0%	0	0.0%	0	0.0%	5,000,000	0.0%	0	0.0%	5,000,000	0.0%
Nigeria	0	0.0%	0	0.0%	4,864,661	0.0%	0	0.0%	0	0.0%	4,864,661	0.0%
Tunisia	0	0.0%	1,225,000	0.0%	0	0.0%	0	0.0%	0	0.0%	1,225,000	0.0%
Myanmar	270,000	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	270,000	0.0%
Iraq	140,000	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	140,000	0.0%
Albania	0	0.0%	0	0.0%	0	0.0%	0	0.0%	114,153	0.0%	114,153	0.0%
Vanuatu	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
TOTAL	15,640,364,826		13,150,541,426		17,882,931,093		20,227,884,035		33,425,889,050		100,327,610,430	100.00%

Source: Malaysian Industrial and Development Authority (MIDA), available at: http://www.mida.gov.my/stats_man/2007/TableVII.html, accessed on 26th June 2008

Appendix 13 : List of Agreements

Malaysia with Saudi Arabia

1. Cultural & Scientific Cooperation Agreement (19/05/1976);
2. Economic & Technical Cooperation Agreement (29/01/1975);
3. Air Services Agreement (18/07/1993);
4. Sponsorship of the International Islamic University (8/08/1985);
5. MoU on Education (20/10/1978);
6. MoU on Programme of Action for Cooperation in Field of Information (16/12/1982).

Malaysia with United Arab Emirates

1. Cultural & Scientific Cooperation Agreement (25/01/1975);
2. Trade Agreement (26/02/1962);
3. Investment Guarantee Agreement (11/10/1991);
4. Double Taxation Agreement (28/11/1995);
5. Economic & Technical Cooperation Agreement (25/01/1975);
6. Air Services Agreement (4/05/1993).

Malaysia with Kuwait

1. Cultural & Scientific Cooperation Agreement (21/01/1975);
2. Agreement for the Promotion and Protection on Investment (1987);
3. Avoidance Double Taxation Agreement (DTA) (2003);
4. Economic & Technical Cooperation Agreement (21/01/1975);
5. Air Services Agreement (7/05/1975).

Malaysia with Oman

1. Cultural & Scientific Cooperation Agreement (22/01/1975);
2. Air Services Agreement (19/04/1993);
3. Information Protocol (28/11/1988).

Malaysia with Qatar

1. Economic & Technical Cooperation Agreement (25/01/1975);
2. Agreement on the Avoidance of Double Taxation (3/07/2008);
3. Air Services Agreement (14/05/2001).

Malaysia with Bahrain

1. Investment Guarantee Agreement (15/06/1999);
2. Double Taxation Agreement (14/06/1999);
3. Cultural & Scientific Cooperation Agreement (26/01/1975);
4. Air Services Agreement (17/10/1994);
5. Joint Commission for Bilateral Cooperation Agreement (29/01/2001).

Source: Ministry of Trade and Investment (MITI), Malaysia

Appendix 14 : Statistical test

1. Cronbach's alpha

Cronbach's alpha can be written as a function of the number of test items. For conceptual purposes, below is the standardized Cronbach's alpha formula[54]:

$$\alpha = \frac{N.\bar{c}}{\bar{v} + (N-1).\bar{c}}$$

Here N is equal to the number of items, c-bar is the average inter-item covariance among the items and v-bar equals the average variance.

One can see from this formula that if you increase the number of items, you increase Cronbach's alpha. Additionally, if the average inter-item correlation is low, alpha will be low. As the average inter-item correlation increases, Cronbach's alpha increases as well (holding the number of items constant).

2. KMO and Bartlett Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO) measure of sampling adequacy tests whether the partial correlations among variables are small[55].

If two variables share a common factor with other variables, their partial correlation (aij) will be small, indicating the unique variance they share (Wielkiewicz, 2000).

a_{ij} = (rij •1, 2, 3, …k)

KMO = $(\Sigma\Sigma\ r^2_{ij}) / (\Sigma\Sigma\ r^2_{ij} + (\Sigma\Sigma\ a^2_{ij})$

If $a_{ij} \cong 0.0$

The variables are measuring a common factor, and KMO ≅ 1.0

If $a_{ij} \cong 1.0$

[54] Taken from http://www.ats.ucla.edu/stat/spss/faq/alpha.html
[55] Taken from SPSS online help http://www.spss.com/software/data-collection/services/

The variables are not measuring a common factor, and KMO ≅ 0.0

Interpretation of the KMO as characterized by Kaiser, Meyer, and Olkin:

KMO Value	Degree of Common Variance
0.90 to 1.00	Marvelous
0.80 to 0.89	Meritorious
0.70 to 0.79	Middling
0.60 to 0.69	Mediocre
0.50 to 0.59	Miserable
0.00 to 0.49	Don't Factor

Bartlett test calculates the determinate of the matrix of the sums of products and cross-products (S) from which the inter-correlation matrix is derived.

The determinant of the matrix S is converted to a chi-square statistic and tested for significance.

The null hypothesis is that the intercorrelation matrix comes from a population in which the variables are noncollinear (i.e. an identity matrix)

And that the non-zero correlations in the sample matrix are due to sampling error.

3. Z test

Basically Z-Test is used to compare between two means to suggest both samples come from the same population (Field, 2005).

4. Eigenvalues

The eigenvalues for a given factor measures the variance in all the variables which is accounted for by that factor. The ratio of eigenvalues is the ratio of explanatory importance of the factors with respect to the variables. If a factor has a low eigenvalues, then it is contributing little to the explanation of variances in the variables and may be ignored as redundant with more important factors.

Initially, it measures the amount of variation in the total sample accounted for by each factor. In other words, it measures amount of variance in relation to total variance SPSS will output a corresponding column titled '% of variance'. A factor's eigenvalues may be computed as the sum of its squared factor loadings for all the variables.[56]

[56] http://faculty.chass.ncsu.edu/garson/PA765/factor.htm#eigen

Bibliography

SWOT Analysis-Quick MBA: Strategic Management.(1999-2007). Internet Center for Management and Business Administration, Inc. Available at: <http://www.quickmba.com/strategy/swot/> Access Date: 3 March 2010.

Final Communiqué of the Third Extraordinary Session of the Islamic Summit Conference.(2005). Jeddah,Kingdom of Saudi Arabia, The Organization of The Islamic Conference. Available at: <http://www.oic-oci.org/ex-summit/english/fc-exsumm-en.htm> Access Date: 20 September 2007.

United Nation Economic and Social Commission For Western Asia (Statistic Division).(2008). Beirut, United Nation. Available at: <http://www.escwa.un.org/divisions/main.asp?division=sd> Access Date: 11 January 2008.

Cambridge Advanced Learner's Online Dictionary (2009), Cambridge University Press.

Abdelkarim, Abbas. (1999)."Change and Development in the Gulf: an Overview of Major Issues", in Abdelkarim, Abbas (Ed.), *Change and development in the Gulf* (pp. ix, 270 p.). Basingstoke: Macmillan.

Abdulla, Khalid M. (1999)."The State In Oil Rentier Economies: The Case of Bahrain", in Abdelkarim, Abbas (Ed.), *Change and development in the Gulf* (pp. 51 - 78). Basingstoke: Macmillan.

Abidin, Mahani Zainal and Wai Heng, Loke. (2008)."Revealed Comparative Advantage of Malaysian Exports: The Case for Changing Export Composition". *Asian Economic Papers,* Vol: 7 (3)**,** pp.130-147.

Akgungor, S., Barbaros, R. F. and Kumral, N. (2002)."Competitiveness of the Turkish fruit and vegetable processing industry in the European Union market". *Russian and East European Finance and Trade,* Vol: 38 (3)**,** pp.34-53.

Al-Yousif, Yousif Khalifa. (2004). *Oil Economics and Globalization: The Case of The GCC Countries*. Topics in Middle Eastern and North African

Economies, Electronic Journal Vol: 6 Issue: Middle East Economic Association and Loyola University Chicago at: <http://www.luc.edu/orgs/meea/volume6/al-yousif.pdf.>, Access Date: 13 May 2008.

Al Saud, A. B. (2002)."Address to the Gulf Cooperation Council". *Middle East Policy,* Vol: 9 (1)**,** pp.29-32.

AMF, Arab Monetary Fund. (1995). *Annual Report (Arab Monetary Fund).* Arab Monetary Fund: Arab Monetary Fund, Abu Dhabi, U.A.E.

_____. (2004). *Annual Report (Arab Monetary Fund).* Arab Monetary Fund: Arab Monetary Fund, Abu Dhabi, U.A.E.

_____. (2007) *Statistic*. Abu Dhabi, UAE: Arab Monetary Fund (AMF). Available at: <http://www.amf.org.ae/statistics>.

Amin, R. M. and Hamid, Z. (2009, 23 - 29 April). *Towards An Islamic Common Market: Are OIC Countries Heading The Right Direction?* Paper presented at the International Conference on Islamic Economics and Economies of the OIC Countries (ICIE) 2009, organised by Department of Economics, International Islamic University Malaysia (IIUM) and Islamic Research and Training Institute (IRTI) of the Islamic Development Bank (IDB), International Islamic University Malaysia.

Ariff, Muhammad. (1998)."Proliferation of Regional Groupings: Policy Options for the OIC". *Journal of Economic Cooperation Among Islamic Countries,* Vol: 19 ((1-2), January-April)**,** pp.5-30.

Arshad, Siti Iswalah. (2002, "Development of the Automotive Sector in Selected Countries of the ESCAP Region". *Regional Consultative Meeting on Promotion of Intraregional Trade and Economic Cooperation in the Automotive Sector.* New York: United Nation. p.,^pp.71 - 83.

ASEAN. (2008) *Selected basic (ASEAN) Indicators* Association of Southeast Asian Nations (ASEAN). Available at: <http://www.aseansec.org/stat/Table1.pdf>.

_____. (2009a) *ASEAN Free Trade Area (AFTA Council)*. Association of Southeast Asian Nations (ASEAN). Available at: <http://www.aseansec.org/19585.htm>.

_____. (2009b) *Overview of Association of Southeast Asian Nations (ASEAN)*. Association of Southeast Asian Nations (ASEAN). Available at: <http://www.aseansec.org/stat/Table1.pdf>.

Asher, Mukul G. and Sen, Rahul. (2004, 18 - 19 November 2004). *India: An Integral Part of New Asia*. Paper presented at the High Level Conference on Asian Economic Integration: Vision of a New Asia, organised by Tokyo, Japan

_____. (2005). "India-East Asia Integration: A Win-Win for Asia". *Research and Information System for the Non-Aligned and Other Developing Countries (RIS)*, RIS-DP # 91/2005, pp.1-25) New Delhi, India: Research and Information System for the Non-Aligned and Other Developing Countries (RIS).

Askari, Hossein and Dasymaltschi, Babak. (1987)."Evaluation of A GCC Oil Policy", in Sandwick, John A. (Ed.), *The Gulf Cooperation Council: Moderation And Stability In An Interdependent World* (pp. 7-20). Boulder: Westview.

Bahri, Yilmaz. (2003). *Turkey's Competitiveness in The European Union: A Comparison With Five Candidate Countries - Bulgaria, The Czech Republic, Hungary, Poland, Romania - and the EU15*. Vol: Issue: Free University Berlin, Jean Monnet Centre of Excellence Berlin. Available at: <http://ideas.repec.org/p/ezo/ezppap/wp12.html>, Access Date: Feb 2009.

Balassa, Bela. (1965)."Trade Liberalisation and "Revealed" Comparative Advantage". *The Manchester School,* Vol: 33 (2)**,** pp.99-123.

_____. (1977)."Revealed' Comparative Advantage Revisited: An Analysis of Relative Export Shares of the Industrial Countries, 1953-1971". *The Manchester School of Economic & Social Studies,* Vol: 45 (4)**,** pp.327-44.

Ballance, R. H. (1988)."Trade Performance As An Indicator of Comparative Advantage", in Greenway (Ed.), *Economic Development And International Trade* (pp. 6-24). Basingstoke: Macmillan Education.

Ballance, Robert H., Forstner, Helmut and Murray, Tracy. (1987)."Consistency Tests of Alternative Measures of Comparative Advantage". *The Review of Economics and Statistics,* Vol: 69 (1)**,** pp.157-161.

Basit, Abdul (2010, 14 April 2010). Malaysia Keen to Boost Trade Ties with Gulf Nations*. Khaleej Times Online*, Available at: <http://www.khaleejtimes.com/biz/inside.asp?xfile=/data/business/2010/April/business_April254.xml&section=business#>, Accessed Date: 16 April 2010.

Batra, Amita and Khan, Zeba. (2005)."Revealed Comparative Advantage: An Analysis for India and China". *Indian Council for Research on International Economic Relations,* Vol: Working Paper No. 168 (August 2005).

Bell, Judith. (1999). *Doing Your Research Project. 3rd Ed.* Buckingham: Open University Press.

Bendjilali, Boualem. (2000). "An Intra-Trade Econometric Model for OIC Member Countries: A Cross Country Analysis". Islamic Research and Training Institute (IRTI) Research Paper No. (55), Jeddah: Islamic Research and Training Institute (IRTI), Islamic Development Bank (IDB).

Bernama, Malaysia (2007). Malaysia Mulls FTA with GCC Countries*.* Available at: <http://www.bilaterals.org/article.php3?id_article=7552>, Accessed Date: 8 June 2008.

Bhagwati, Jagdish N. and Balasubramanyam, V. N. (1998). *Writings on International Economics.* Delhi: Oxford University Press.

EU-GCC.(2009). Bilateral.org. Available at: <http://www.bilaterals.org/rubrique.php3?id_rubrique=149> Access Date: 3 January 2010.

BNM, Bank Negara Malaysia. (2002). *Bank Negara Malaysia Annual Report 2001.* Bank Negara Malaysia (BNM): Bank Negara Malaysia (BNM), Kuala Lumpur, Malaysia.

_____. (2008). *Bank Negara Malaysia Annual Report 2007.* Bank Negara Malaysia (BNM): Bank Negara Malaysia (BNM), Kuala Lumpur, Malaysia.

_____. (2009). *Bank Negara Malaysia Annual Report 2008.* Bank Negara Malaysia (BNM): Bank Negara Malaysia (BNM), Kuala Lumpur, Malaysia.

_____. (2010). *Bank Negara Malaysia Annual Report 2009.* Bank Negara Malaysia (BNM): Bank Negara Malaysia (BNM), Kuala Lumpur, Malaysia.

Bowen, Harry. (1983)."On The Theoretical Interpretation of Indices of Trade Intensity and Revealed Comparative Advantage". *Review of World Economics,* Vol: 119 (3)**,** pp.464-472.

Bowen, Harry P., Leamer, Edward E. and Sveikauskas, Leo. (1987)."Multicountry, Multifactor Tests of the Factor Abundance Theory". *The American Economic Review,* Vol: 77 (5)**,** pp.791-809.

Bradford, Robert W. and Duncan, J. Peter. (2000). *Simplified Strategic Planning: The No-Nonsense Guide for Busy People Who Want Results Fast.* Worcester, MA: Chandler House Press.

Brander, J. A. (1981)."Intra-Industry Trade in Identical Commodities". *Journal of International Economics,* Vol: 11 (1)**,** pp.1-14.

Bryman, Alan and Bell, Emma. (2003). *Business Research Methods.* Oxford: Oxford University Press.

Bryson, John M. (1989). *Strategic Planning For Public and Nonprofits Organizations: A Guide To Strengthening And Sustaining Organizational Achievement.* San Francisco: Jossey-Bass.

Carbaugh, Robert J. (1985). *International Economics. 2nd ed.* Belmont, Calif: Wadsworth Pub. Co.

Carey, Glen and Mahdi, Wael. (2010, May 26). *GCC Members Suspend Free-Trade Talks With Europe.* Bloomberg. Available at: <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aX8ea.21Ipis> Access Date: 28 May 2010

Chatterjee, S. , Ghatak, S. and Daly, V. (2004)." Prices, exchange rates and export competitiveness of New Zealand: an assessment using Divisia indices". *International Journal of Economic Research,* Vol: 1 (2)**,** pp.117-128.

Cheong, Tang Tuck and Tsen, Wong Hock. (2008). *Malaysia's International Trade Issues: An Impressionistic View.* Selangor, Malaysia: Pelanduk Publications.

Chirullo, Marco and Guerrieri, Paolo. (2002). *GCC-EU Relations and Trade Integration Patterns.* Italy: The Robert Schuman Centre For Advanced Studies.

Christie, John. (1987)."History and Development of the Gulf Cooperation Council: A Brief Overview", in Sandwick, John A. (Ed.), *The Gulf Cooperation Council : Moderation and Stability In an Interdependent World* (pp. 7-20). Boulder: Westview.

Clough, Peter and Nutbrown, Cathy. (2007). *A Student's Guide To Methodology: Justifying Enquiry. 2nd ed.* London: SAGE.

Coakes, Sheridan J. (2005). *SPSS: Analysis Without Anguish: Version 12.0 for Windows. Version 12.0.* Singapore: John Wiley & Sons Inc.

Cohen, Louis, Manion, Lawrence and Morrison, Keith. (2007). *Research Methods In Education [Electronic Resource].* Taylor & Francis Routledge, Acessed on: 18 November 2009, retrived from: Netlibrary database. Availbale at <http://www.netlibrary.com/Details.aspx>

Collis, Jill and Hussey, Roger. (1997). *Business Research: A Practical Guide for Undergraduate and Postgraduate Students. Second Edition.* Basingtoke: Palgrave Macmillan.

Ten-year programme of action to meet the challenges facing the Muslim ummah in the 21st century.(2005). Makkah Al-Mukarramah, Saudi Arabia, Third Extraordinary Session Of The Islamic Summit Conference. Available at: <http://www.islamicsummit.org.sa/en/9-8.aspx> Access Date: 16 December 2009.

Creed, Adrian. (2006). *Privatization in the Gulf.* GCC- Japan Research Bulletin (Issue No. 1), Gulf Research Centre (GRC), Dubai.

Dabdab, Nasif J. and Mohyuddin, Badr I. (1984)."Industrialization In The Gulf", in Azhary, M. S. El (Ed.), *The Impact Of Oil Revenues On Arab Gulf Development* (pp. 91 - 107). London: Croom Helm.

Damodaran, Rupa (2009, 29 November). Malaysia Attracts OIC Investments Worth US$46.8m. *Bussines Times*, Available at: <http://www.btimes.com.my/Current_News/BTIMES/articles/rup9a3/Article/index_html>, Accessed Date: 29 December 2009.

Dar, H. A. and Presley, J. R. (2001)."The Gulf Co-operation Council: A Slow Path To Integration?". *World Economy,* Vol: 24 (9)**,** pp.1161-1178.

Davidson, Christopher M. (2008a). *Dubai: The Vulnerability of Success.* London :: Hurst & Co.

_____ (2008b) *The Impact of Economic Reform on Dubai,* in Ehteshami, Anoushiravan and Wright, Steven (Eds.), Reform in the Middle East oil monarchies. pp.133-152. Reading, Berkshire, UK:Ithaca Press.

Davis, D. R. (1995a)."Intraindustry Trade - a Heckscher-Ohlin-Ricardo Approach". *Journal of International Economics,* Vol: 39 (3-4)**,** pp.201-226.

Davis, Donald R. (1995b)."Intra-Industry Trade: A Heckscher-Ohlin-Ricardo Approach". *Journal of International Economics,* Vol: 39 (3-4)**,** pp.201-226.

De Benedictis, Luca and Tamberi, Massimo. (2001). *A Note on the Balassa Index of Revealed Comparative Advantage.* SSRN. Available at: <http://ssrn.com/abstract=289602 > Access Date:

Deardorff, Alan V. (1984)."Testing trade theories and Predicting Trade Flows", in Ronald, W. Jones and Peter, B. Kenen (Eds.), *Handbook of International Economics* (pp. 467-517). Elsevier.

Denscombe, Martyn. (2007). *The Good Research Guide: For Small-Scale Social Research Projects. 3rd Ed.* Maidenhead: McGraw Hill/Open University Press.

Eaton, J. and Kierkowski, H. (1984)."Oligopolistic Competition, Product Variety, Entry Deterrence, and Technology-Transfer". *Rand Journal of Economics,* Vol: 15 (1)**,** pp.99-107.

Economic Planning Unit Malaysia, Prime Minister Department. (2008). *National Vision Policy.* Available at: <http://www.epu.jpm.my/> Access Date: 4 June 2008

Economic Planning Unit, Prime Minister Department (2008). *Kajian Separuh Penggal Rancangan Malaysia ke-9, (electronic version).* Economic Planning Unit, Prime Minister's Department, Putrajaya.

Edwards, Robert H and Dean, Richard. (2004)."Oil, Gas and Energy The oil and Non-Oil Economy of the Middle East", in Inc, Edward Economic

Research (Ed.), *The Middle East and Central Asia Databook* (pp. 140 - 147). London: Routledge.

El-Agraa, A. M. (1983). *The Theory of International Trade.* London: St Martin's Press.

El-Kuwaiz, Abdullah. (1987)."Economic Integration of the Cooperation Council of the Arab States of the Gulf: Challenges, Achievements and Future Outlook", in Sandwick, John A. (Ed.), *The Gulf Cooperation Council: Moderation and Stability in an Interdependent World* (pp. 71-83). Boulder: Westview.

ESCWA. (1997). *Survey of Economic and Social Developments in the ESCWA Region 1996-1997, Summary.* United Nations, Economic and Social Commission for Western Asia: UN ESCWA, New York: United States.

_____. (1998). *Survey of Economic and Social Developments in the ESCWA Region 1997-1998, summary.* United Nations, Economic and Social Commission for Western Asia: UN ESCWA, New York: United States.

_____. (2000). *Survey of Economic and Social Developments in the ESCWA Region 1999 - 2000.* United Nations, Economic and Social Commission for Western Asia: UN ESCWA, New York: United States.

_____. (2001). *Survey of Economic and Social Developments in the ESCWA Region 2000 - 2001, Summary.* United Nations, Economic and Social Commission for Western Asia: UN ESCWA, New York: United States.

_____. (2002). *Survey of Economic and Social Developments in the ESCWA Region 2001-2002.* United Nations, Economic and Social Commission for Western Asia: UN ESCWA, New York: United States.

_____. (2003). *Survey of Economic and Social Developments in the ESCWA Region 2002-2003.* United Nations, Economic and Social Commission for Western Asia: UN ESCWA, New York: United States.

_____. (2004). *Survey of Economic and Social Developments in the ESCWA Region 2003-2004.* United Nations, Economic and Social Commission for Western Asia: UN ESCWA, New York: United States.

_____. (2005). *Survey of Economic and Social Developments in the ESCWA Region 2004-2005.* United Nations, Economic and Social Commission for Western Asia: UN ESCWA, New York: United States.

_____. (2006). *Survey of Economic and Social Developments in the ESCWA Region 2005-2006.* United Nations, Economic and Social Commission for Western Asia: UN ESCWA, New York: United States.

_____. (2007). *Survey of Economic and Social Developments in the ESCWA Region 2006-2007.* United Nations, Economic and Social Commission for Western Asia: UN ESCWA, New York: United States.

_____. (2008). *Survey of Economic and Social Developments in the ESCWA Region 2007-2008.* United Nations, Economic and Social Commission for Western Asia: UN ESCWA, New York: United States.

_____. (2009). *Bulletin on Population and Vital Statistics in the ESCWA Region.* United Nation (UN): United Nation, New York.

Falvey, R. E. (1981)."Commercial-Policy and Intra-Industry Trade". *Journal of International Economics,* Vol: 11 (4)**,** pp.495-511.

Fasano-Filho, Ugo (2003). *Diversification in Oil-Dependent Economies The Experience of the GCC Countries.* Available at: <http://unfccc.int/files/adaptation/adverse_effects_and_response_measures_art_48/application/pdf/200311_ed_imf.pdf> Access Date: 12 July 2009

Fasano-Filho, Ugo and Iqbal, Zubair. (2003). *GCC Countries: From Oil Dependence to Diversification.* Washington D.C.: International Monetary Fund.

Fasano-Filho, Ugo and Schaechter, Andrea. (2003). *Monetary Union Among Member Countries of the Gulf Cooperation Council.* Washington D.C.: International Monetary Fund.

Ferto, Imre. (2004). *Agri-Food Trade between Hungary and the European Union*. Doctor of Philosophy, University of Newcastle upon Tyne.

Fertő, Imre and Hubbard. (2002). *Revealed Comparative Advantage and Competitiveness in Hungarian Agri-Food Sectors*. Discussion Papers Vol: 8

Issue: New Series. Institute of Economics Hungrian Academy of Sciences. Budapest. Available at: <econ.core.hu>, Access Date: 3 May 2009.

Field, Andy. (2005). *Discovering Statistics Using SPSS: (And Sex, Drugs And Rock 'n' Roll). 2nd edition.* London: SAGE.

Fink, C., Mattoo, A. and Neagu, I. C. (2005)."Assessing The Impact of Communication Costs on International Trade". *Journal of International Economics,* Vol: 67 (2)**,** pp.428-445.

Flam, H. and Helpman, E. (1987)."Vertical Product Differentiation and North-South Trade". *American Economic Review,* Vol: 77 (5)**,** pp.810-822.

Folfas, Paweł. (2010). *The Intensity of Bilateral Relations in Intra-EU Trade and Direct Investments: Analysis Of Variance and Correlation.* Available at: <http://www.etsg.org/ETSG2010/papers/Folfas.pdf> Access Date: 19 September 2010

Foster, Jeremy J. (1998). *Data Analysis Using SPSS for Windows: A Beginner's Guide.* London: SAGE.

Frankel, J. A. and Rose, A. K. (1998)."The Endogeneity of the Optimum Currency Area Criteria". *Economic Journal,* Vol: 108 (449)**,** pp.1009-1025.

Frankel, Jeffrey A., Stein, Ernesto and Wei, Shang-Jin. (1997). *Regional Trading Blocs In The World Economic System.* Washington, DC: Institute for International Economics.

GCC. (2003a) *The Customs Union of the GCC Member States*. Gulf Cooperation Council. Available at: <http://library.gcc-sg.org/English/Books/union2004.htm>.

_____. (2003b). *Implementation Procedures for the GCC Customs Union.* Gulf Cooperation Council. Available at: <http://www.gcc-sg.org/eng/index.php?action=Sec-Show&ID=93> Access Date:

_____. (2007) *The Cooperation Council For The Arab States of The Gulf*. Gulf Cooperation Council. Available at: <http://www.gcc-sg.org/eng/index.php?action=Sec-Show&ID=3>.

Ghafour, P.K. Abdul (2008, Tuesday, 1 January 2008). GCC Common Market Becomes a Reality. *Arab News*, Available at:

<http://www.arabnews.com/?page=1&section=0&article=105173&d=1&m=1&y=2008>, Accessed Date: 20 July 2008.

Gilbert, John. (2010) *Understanding and Using Common Indices of International Trade*. Utah State: United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP). Available at: <http://www.unescap.org/tid/projects/negotool_jg4.pdf>.

Greenaway, David and Milner, Chris. (1993). *Trade and Industrial Policy in Developing Countries: A Manual of Policy Analysis.* Houndmills, Basingstoke: Palgrave Macmillan.

Gulf Cooperation Council, Majlis al-A`lá. (2003). *Closing Statements of the Sessions of the Supreme Council : Session 1-23.* Riyadh: Gulf Cooperation Council.

Gulf Cooperation Council. Majlis al-A`lá. (2003). *Closing Statements of the Sessions of the Supreme Council : Session 1-23.* Riyadh: Gulf Cooperation Council.

Hag, Sherine El and Shazly, Mona R. El. (2010). *Oil Dependency, Export Diversification and Economic Growth in the Arab Gulf States* Available at: <http://business.fullerton.edu/Economics/selhag/research/Oil_Dependency_Export_Diversification.doc> Access Date: 8 June 2010

Harrigan, J. (1993)."OECD imports and trade barriers in 1983". *Journal of International Economics,* Vol: 35 (1-2)**,** pp.91-111.

Hassan, Kabir. (1998)."The Impact of Globalization on The Financial Market of the Developing Countries". *Journal of Economic Cooperation Among Islamic Countries,* Vol: 19 (January-April 1998)**,** pp.71-136.

_____. (2002) *An empirical investigation of economic cooperation among the OIC member countries*. Cairo, Egypt: Economic Research Forum for the Arab Countries, Iran & Turkey. Available at: <http://www.erf.org.eg/database/paperresult.asp?d%5Fcode=200212>.

Heckscher, Eli F. (1919)."The Effect of Foreign Trade on the Distribution of Income", in Flam, Harry and Flanders, M June (Eds.), *Heckscher-Ohlin trade theory* (pp. 39 - 78). Cambridge, Mass: MIT Press, (1991).

Helble, M. (2007)."Is God Good For Trade?". *Kyklos,* Vol: 60 (3)**,** pp.385-413.

Helpman, E. (1981)."International Trade in the Presence of Product Differentiation, Economies of Scale and Monopolistic Competition - a Chamberlin-Heckscher-Ohlin Approach". *Journal of International Economics,* Vol: 11 (3)**,** pp.305-340.

_____. (1998)."Explaining the Structure of Foreign Trade: Where Do We Stand?". *Weltwirtschaftliches Archiv-Review of World Economics,* Vol: 134 (4)**,** pp.573-589.

Helpman, Elhanan and Krugman, Paul R. (1985). *Market Structure and Foreign Trade: Increasing Returns, Imperfect Competition, and the International Economy.* Cambridge, Mass: MIT Press.

Heungchong, Kim. (2002). "Has Trade Intensity in ASEAN+3 Really Increased? Evidence from a Gravity Analysis". *Korea Institute for International Economic Policy (KIEP)*, Working Paper 02-12, November 2002. pp.1-62) Korea: East Asian Bureau of Economic Research.

Hillman, Arye. (1980)."Observations on the Relation between "Revealed Comparative Advantage" and Comparative Advantage As Indicated by Pre-Trade Relative Prices". *Review of World Economics (Weltwirtschaftliches Archiv),* Vol: 116 (2)**,** pp.315-321.

Husain, Shakir*.* (2009). *Malaysia-GCC Free Trade Talks Soon.* MATRADE. Available at: <http://www.matrade.gov.my/cms/storage/documents/9ae/com.tms.cms.document.Document_18a45178-7f000010-77e277e2-5a033fc6/1/Clipping_2.pdf> Access Date:

Idris, Asmady. (2006). *Key Determining Factors Influencing Small States' Relationships: A Case Study of Malaysia's Relations with Saudi Arabia*. Doctor of Philosophy, University of Newcastle upon Tyne, UK.

International Monetary Fund, IMF. (2007). *International Monetary Fund (IMF), Directions of Trade Statistic (DOTS), November 2007.* ESDS International, (Mimas) University of Manchester. Available at: <http://esds.mcc.ac.uk/wds_wb/ReportFolders/ReportFolders.aspx?CS_referer=&CS_ChosenLang=en> Access Date: 17 April 2008

International Monetary Fund , IMF. (2008). *International Monetary Fund (IMF), Directions of Trade Statistic (DOTS), April 2008.* ESDS International, (Mimas) University of Manchester. Available at: <http://esds.mcc.ac.uk/wds_wb/ReportFolders/ReportFolders.aspx?CS_referer=&CS_ChosenLang=en> Access Date: 17 April 2008

_____. (April 2010a). *Interantional Financial Statistic (IFS), Direction of Trade Statistic (DOTS), April 2010.* International Monetary Fund , IMF. Available at: <http://www.imfstatistics.org/imf/> Access Date: 29 May 2010

_____. (April 2010b). *Interantional Financial Statistic (IFS), International Monetary Fund (IMF), April 2010.* International Monetary Fund , IMF. Available at: <http://www.imfstatistics.org/imf/> Access Date: 29 May 2010

Janardhan, N. (2007, 21-25 March). *GCC-Asia Ties: Economy First. What next?* Paper presented at the The Eighth Mediterranean Social and Political Research Meeting of the European University Institute, organised by Mediterranean Programme of the Robert Schuman Centre for Advanced Studies, Florence & Montecatini Terme.

_____. (2008, February)."Unfair to Blame Asia for Oil Prices". GULF ASIA - Research Buletin, 18-19.

Janardhan, N. and Rutledge, Emilie. (2005). *GCC Integration: More Rhetorical Than Real?* Arab News. Available at: <http://archive.arabnews.com/?page=7&section=0&article=62582&d=22&m=4&y=2005> Access Date: 25 June 2008

Johnson, Paul M. (2005). *Absolute advantage.* A Glossary of Political Economy Terms, Department of Political Science, Auburn University, Auburn, AL 36849. Available at: <http://www.auburn.edu/~johnspm/gloss/absolute_advantage> Access Date: 1 Nov 2008

Kalbasi, Hassan. (1995). *Trade Flows and Comparative Advantage for Iran*. PhD, Loughborough University of Technology.

Kawach, Nadim (2009, 26 March 2009). GCC population gains over 1.7 million in two years. *Zawya*, Available at: <http://www.zawya.com/Story.cfm/sidZAWYA20090326042842/GCC%20population%20gains%20over%201.7%20million%20in%20two%20years/>, Accessed Date: 13 April 2009.

KhaleejTimes (2008, 16 Dec). GCC signs FTA with Singapore. *Khaleej Times*, Available at: <www.menafn.com >, Accessed Date: 29 July.

Khalifah, Noor Aini. (1993)."The Structure of Intra-Muslim Countries Trade". *Jurnal Ekonomi Malaysia,* Vol: 27**,** pp.57-84.

Khan, Salahuddin Kasem. (2005)."Regional and Subregional Cooperation Between OIC Member States in Southeast Asia: Towards a Subregional Common Market", in Michael, Yeoh and Institute, Asian strategy Leadership (Eds.), *World islamic economic forum : partnerships for growth and development* (pp. 15-26). Petaling Jaya, Malaysia: MPH Group Publishing in cooperation with Asian Strategy & Leadership Institute.

Khatibi, Arastou. (2008). *ECIPE Working Paper.* The European Centre for International Political Economy (ECIPE). Brussels, Belgium. Available at: <www.ecipe.org/publications/ecipe-policy-briefs/kazakhstan2019s-revealed-comparative-advantage-vis-a-vis-the-eu-27 > Access Date:

Knox, Karl. (2004). *A Researcher's Dilemma - Philosophical and Methodological Pluralism.* Electronic Journal of Business Research Methods. Vol: 2 Issue: 2. at: <http://www.ejbrm.com/vol2/v2-i2/vol2-issue2-art7-knox.pdf>, Access Date: 10 November.

Koppers, Simon. (1995). *Economic Analysis and Evaluation of the Gulf Cooperation Council (GCC).* Frankfurt am Main ; New York: P. Lang.

Krugman, Paul R. (1979)."Increasing Returns, Monopolistic Competition, and International Trade". *Journal of International Economics,* Vol: 9 (2)**,** pp.464 - 479.

_____. (1980)."Scales Economies, Product Differentation, and the Pattern of Trade". *American Economic Review,* Vol: 70 (5)**,** pp.950 - 959.

Krugman, Paul R. and Obstfeld, Maurice. (2006). *International Economics: Theory and Policy. 7th.* Boston, MA: Addison Wesley.

Kubursi, A. A. (1984). *Oil, Industrialization & Development in the Arab Gulf States.* London: Croom Helm.

Kumar, Ranjit. (1999). *Research Methodology: A Step-By-Step Guide for Beginner.* London SAGE.

KUNA (2009, 16 July). Malaysia eyes enhanced cooperation with GCC. *Gulf Research Centre*, Available at: <http://www.gulfinthemedia.com/index.php>, Accessed Date: 29 July 2009.

Lancaster, K. (1980)."Intra-Industry Trade under Perfect Monopolistic Competition". *Journal of International Economics,* Vol: 10 (2)**,** pp.151-175.

Leamer, Edward E. and Levinsohn, James. (1995)."International Trade Theory: The Evidance", in Grossman, Gene M. and Rogoff, Kenneth (Eds.), *Handbook of International Economics* (pp. Netherlands: Elsevier.

Limlikit, Samerjit. (2009). *Thailand's Relation With the GCC States: An Analysis of State and Non-State Actors*. PhD, University of Durham.

Looney, Robert E. (1994). *Industrial Development and Diversification of the Arabian Gulf Eonomies.* Greenwich, Conn.: JAI Press.

Loungani, P., Mody, A. and Razin, A. (2002)."The Global Disconnect: The Role of Transactional Distance and Scale Economies in Gravity Equations". *Scottish Journal of Political Economy,* Vol: 49 (5)**,** pp.526-543.

Mahmood, Kazi (2003, 12 August 2003). Mahathir Encourages Trade With Islamic Countries. Available at: <http://www.islamonline.net/English/News/2003-08/12/article09.shtml>, Accessed Date: 23 Jun 2008.

Mahmood., Amir. (1999, October 21-22). *Export Specialization and Competitiveness of the Malaysian Manufacturing:Trends, Challenges and Prospects.* Paper presented at the 50th Anniversary Conference International Conference On The Challenges Of Globalization, organised by Faculty of Economics, Thammasat University, Thailand.

Manzur, Meher, Dongling, Chen and Clements, Kenneth W. (1991)."Real exchange rates and divisia moments of world trade". *Economics Letters,* Vol: 36 (1), pp.77-79.

Mark Yeandle, Jeremy Horne, Nick Danev and Ben Morris of the Z/Yen Group. (2009). *The Global Financial Centres Index-6.* City of London Corporation London. Available at: <http://217.154.230.218/NR/rdonlyres/4A05FE0F-4CD1-46EB-ADB5-84672ACC05FE/0/GFCI6.pdf> Access Date: 7 September 2009

Marrewijk, Charles Van. (2002). *International Trade and The World Economy.* New York: Oxford University Press.

MENAFN-KhaleejTimes (2009, 23 Dec 2009). Dubai-DIFC rank 7th top international financial centre in competitiveness. *Khaleej Times*, Available at: <http://www.menafn.com/qn_news_story_s.asp?storyid=1093290803>, Accessed Date: 12 January 2010.

MIER. (2009) *Malaysian Economic Outlook*. Kuala Lumpur, Malaysia: Malaysian Institute of Economic Research (MIER). Available at: <http://www.mier.org.my/outlook/>.

Miller, Robert L., Acton, Ciaran, Fullerton, Deirdre A. and Maltby, John. (2002). *SPSS for Social Scientists.* New York: Palgrave Macmillan.

Ministry of Finance, Malaysia. (2007). *Malaysian Economy Second Quarter 2007.* Ministry of Finance Malaysia, Putrajaya Malaysia. September 2007

MITI. (2009a) *Free Trade Agreement: Malaysia's FTA Involvement*. Kuala Lumpur, Malaysia: Ministry of International Trade and Industry Available at: <http://www.miti.gov.my/cms/content.jsp?id=com.tms.cms.section.Section_8ab55693-7f000010-72f772f7-46d4f042>.

_____. (2009b). *Review of National Automotive Policy.* Ministry of International Trade and Industry Kuala Lumpur, Malaysia. Available at: <http://www.miti.gov.my/cms/content.jsp?id=com.tms.cms.article.Article_9971dce0-c0a81573-3edb3edb-686eb8ad> Access Date: 20 December 2009

MITI, Ministry of International Trade and Industry Malaysia. (2006a). *Malaysia International Trade and Industry Report 2005.* Ministry of International Trade and Industry Malaysia (MITI), Kuala Lumpur, Malaysia.

_____. (2006b). *Third Industrial Master Plan (IMP3) 2006 - 2020.* MITI, Ministry of International Trade and Industry Malaysia, Kuala Lumpur.

_____. (2007). *Malaysia International Trade and Industry Report 2006.* MITI, Kuala Lumpur, Malaysia.

_____. (2008). *Malaysia International Trade and Industry Report 2007.* Ministry of International Trade and Industry Malaysia (MITI), Kuala Lumpur, Malaysia.

Mohammad, Mahathir (2003a, 17 October 2003). Consider IFTA proposal- Dr Mahathir, *Utusan Malaysia,* p.,Availble at: http://www.utusan.com.my/utusan/SpecialCoverage/OIC2003/index.asp?y=2003&dt=1017&pub=OIC2003&sec=News&pg=on_37.htm. Access date: 22 December 2009.

_____ (2003b, 13 October). Speech at OIC Business Forum, Putrajaya, Malaysia *Kuala Lumpur*, Available at: <http://www.bernama.com/oicsummit/speechr.list >, Accessed Date: 23 Jun 2008.

Muhammad, Nik Maheran Nik and Yaacob, Haslina Che. (2008)."Export Competitiveness of Malaysian Electrical and Electronic Product: Comparative Study of China, Indonesia and Thailand". *International Journal of Business Management (IJBM),* Vol: 3 (7)**,** pp.97-107.

Murray, Rowena. (2006). *How to write a thesis / Rowena Murray. 2nd ed.* Maidenhead :: Open University Press.

National Economic Advisory Council, Malaysia. (2010). *New Economic Model for Malaysia.* Percetakan Nasional Malaysia Berhad: National Economic Advisory Council (NEAC), Putrajaya, Malaysia.

Niblock, Tim. and Malik, Monica. (2007). *The Political Economy of Saudi Arabia.* London: Routledge.

The List Of Signatory / Ratifying Member Countries Of The TPS-OIC Agreements.(2009). Available at:

<http://www.comcec.org/EN/Default.aspx> Access Date: 29 December 2009.

Ohlin, Bertil. (1924)."The Trade Theory", in Flam, Harry and Flanders, M June (Eds.), *Heckscher-Ohlin trade theory* (pp. 82 - 213). Cambridge, Mass: MIT Press, (1991).

OIC. (2009) *The Organisation of The Islamic Conference*. OIC. Available at: <http://www.oic-oci.org/page_detail.asp?p_id=52>.

Pallant, Julie. (2004). *SPSS Survival Manual: A Step By Step Guide to Data Analysis Using SPSS For Windows 2nd Edition.* Maidenhead : Open University Press.

Parrehas, Julius Caesar. (1998)."The GCC and the Development of ASEAN". *Emirates Occasional Papers,* Vol: 26**,** p.,50.

Parreñas, Julius Caesar. (1998). *The GCC And The Development of ASEAN.* Abu Dhabi: Emirates Center for Strategic Studies and Research.

Pascha, Werne. (2002). *Economic Relations Between Germany And Japan: An Analysis Of Recent Data*. Vol: 61 Issue: 2002. Fakultät für Wirtschaftswissenschaften Duisburg. Available at: <http://www.econbiz.de/archiv/du/udu/fiwentwicklung/economic_relations_japan.pdf>, Access Date: 19 July 2009.

Perdikis, Nicholas and Kerr, William A. (1998). *Trade Theories And Empirical Evidence.* Manchester: Manchester University Press.

Pöyhönen, P. (1963)."A tentative model for the volume of trade between countries". *Weltwirtschaftliches Archiv-Review of World Economics,* Vol: 90**,** pp.93-99.

Pradhan, Samir Ranjan. (2008). *India, GCC and the Global Energy Regime.* New Delhi: Academic Foundation.

Rafique, Mahmood (2009, 20 January). GCC-Malaysia FTA Will Open a New Era. *Arab News*, Available at: <http://archive.arabnews.com/?page=6&section=0&article=118358&d=20&m=1&y=2009&pix=business.jpg&category=Business>, Accessed Date: 29 July 2009.

Raimi, L. and Mobolaji, H. I. (2008)."Imperative of economic integration among Muslim countries: Lessons from European globalisation". *Humanomics: The International Journal of Systems and Ethics,* Vol: 24 (2)**,** pp.130-144.

Ramady, Mohamed A. (2007). *GCC FTA's: Dead Ends or New Beginnings.* Available at: <www.bilaterals.org/article.php3?id_article=8300> Access Date: 14 April 2008

Ramasamy, Bala and Yeung, Matthew. (2007)."Malaysia - Trade Policy Review 2006". *The World Economy,* Vol: 30 (8)**,** pp.1193-1208.

Rauch, J. E. (1991)."Comparative Advantage, Geographic Advantage and the Volume of Trade". *Economic Journal,* Vol: 101 (408)**,** pp.1230-1244.

Rehman, Aamir A. (2009). *Moving Towards Openness: Regulatory Reform in Gulf Co-operation Council (GCC) Member States.* Available at: <http://new.abanet.org/calendar/ic0709-section-of-international-law-2009-annual-meeting-chicago-il/Documents/GCC_Regulatory_Reform_for_ABA_Jul09-commerce.pdf> Access Date: 8 June 2010

Ricardo, David. (1817). *On the Principles of Political Economy and Taxation.* Harmondsworth: Penguin.

Richardson, David. J and Chi Zhang. (1999). "Revealing Comparative Advantage: Chaotic or Coherent Patterns Across Time and Sector and U.S Trading Partner?",". Working Paper 7212, National Bureau of Economic Research.

Robson, Colin. (2002). *Real World Research: A Resource for Social Scientists and Practitioner-Researchers. 2nd Ed.* Oxford: Blackwell.

Rutledge, Emilie. (2006). *A Gulf Cooperation Council Currency Union: Appropriateness and Implications*. PhD, University of Durham.

Ryan, Bob, Scapens, Robert W and Theobald, Michael. (2002). *Research Method and Methodology In Finance and Accounting 2nd Edition.* London: Thomson.

Saboniene, A. (2009)."Lithuanian Export Competitiveness: Comparison with other Baltic States". *Inzinerine Ekonomika-Engineering Economics,* Vol: (2)**,** pp.49-57.

Salvatore, Dominick. (1997). *International Economics. 6th.* Upper Saddle River, NJ: Prentice Hall.

_____. (2001). *International Economics. 7th.* New York ; Chichester: Wiley.

Sekaran, U. (2003). *Research Methods for Business: A Skill Building Approach. 4th Ed.* New York: John Wiley & Sons, Inc.

Sen, Rahul. (2002). *Singapore In The Global Trading System: Strengthening Linkages Beyond The Southeast Asian Region.* Institute of Southeast Asian Studies. Singapore. Available at: <http://www.iseas.edu.sg/rahulconfp1.pdf> Access Date: 25 June 2008

SESRIC. (2009). *The SESRIC BASEIND (BAsic Social and Economic INDicators) Database.* Available at: <http://www.sesrtcic.org/stat_database.php> Access Date: 29 December 2009

_____. (2010). *OIC Outlook.* The Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC). Ankara. Available at: <http://www.sesric.org/files/article/391.pdf> Access Date: 12 April 2010

SESRTCIC. (2007). *Annual Economic Report on the OIC Countries.* Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRTCIC). Ankara. Available at: <http://www.sesrtcic.org/files/comcec23/English_AER2007_22Oct2007.pdf> Access Date: 12 February 2008

_____. (2008). *The SESRIC BASEIND (Basic Social and Economic INDicators) Database.* Statistical Economic and Social Research and Training Centre for Islamic Countries, (SESRTCIC). Available at: <http://www.sesrtcic.org/baseind_1.php> Access Date: 23 April 2008

Shaked, A. and Sutton, J. (1984) *Natural Oligopolies and International Trade,* in Kierkowski, H. (Ed.) Monopolistic Competition and International Trade. Oxford:Oxford University Press.

Shikoh, Rafi-uddin and Zain, Maria. (2008). *Malaysia, Turkey & Saudi Arabia Driving Increased Intra-OIC Trade.* Available at:

<http://www.dinarstandard.com/intraoic/intraoic052708.html> Access Date: 1 July 2008

SMIDEC. (2009). *Definition of SMEs.* SME Corporation Malaysia. Kuala Lumpur. Available at: <http://www.smidec.gov.my/node/33> Access Date: 9 June 2009

Smith, Adam. (1776). *The wealth of nations.* London: Dent.

Swetnam, Derek. (2000). *Writing your dissertation : how to plan, prepare and present successful work / Derek Swetnam. 3rd ed.* Oxford :: How to Books.

Tamimi, Jumama Al (2010, 23 March 2010). Singapore Wants Free Trade Pact for GCC and ASEAN. *gulfnews.com*, Available at: <http://gulfnews.com/business/economy/singapore-wants-free-trade-pact-for-gcc-and-asean-1.601608>, Accessed Date: 16 April 2010.

Tan, G. (1996). *ASEAN Economic Development and Co-operation.* Singapore: Time Academic Press.

Tang, L. (2006)."What accounts for the growth of trade in differentiated goods: Economic causes or technological imperatives?". *Economics Letters,* Vol: 91**,** pp.204-209.

Tinbergen, J. (1962). *Shaping The World Economy. Suggestions For an International Economic Policy.* New York: The Twentieth Century Fund.

Tong, Goh Chok. (2008, February)."Asia and the Middle East: A New Era of Cooperation". GULF ASIA - Research Buletin, 20-23.

Tongzon, Jose L. (2005)."ASEAN-China Free Trade Area: A Bane or Boon for ASEAN Countries?". *The World Economy,* Vol: 28 (2)**,** pp.191-210.

Toumi, Habib (2009, 16 December). Gulf monetary union pact comes into effect. *Gulfnews.com*, Available at: <http://gulfnews.com/news/gulf/kuwait/gulf-monetary-union-pact-comes-into-effect-1.554124>, Accessed Date: 3 January 2010.

Troitzsch, Klaus G. (2006). *Research Methods in Economics and Social Science.* Available at: <www.uni-koblenz.de/~kgt/SICSS/StatIM/main.pdf> Access Date: 10 November 2009

UNCOMTRADE. (2010) *United Nations Commodity Trade Statistics Database*. United Nation. Available at: <http://comtrade.un.org/db/>.

Utkulu, Utku and Seymen, Dilek. (2004, September 2004). *Revealed Comparative Advantage and Competitiveness: Evidence for Turkey vis-à-vis the EU/15*. Paper presented at the European Trade Study Group 6th Annual Conference, ETSG 2004, organised by European Trade Study Group Nottingham, UK.

Vollrath, T. L. (1991)."A Theoretical Evaluation of Alternative Trade Intensity Measures of Revealed Comparative Advantage". *Weltwirtschaftliches Archiv-Review of World Economics,* Vol: 127 (2), pp.265-280.

WDI. (2010). *World Development Indicator.* Bank, World. Available at: <http://data.worldbank.org/indicator/TG.VAL.TOTL.GD.ZS> Access Date: 20 May 2010

Wielkiewicz, Richard M. (2000). *SPSS Online Guide.* McGraw-Hill Companies Acessed on: 17 September 2010, retrived from: McGraw Hill online book. Availbale at <http://www.mhhe.com/socscience/psychology/runyon/spss/spss.html>

Wilson, Rodney. (1977). *Trade and Investment in the Middle East.* London: Macmillan.

_____. (1998). *The Changing Composition and Direction of GCC Trade.* Abu Dhabi, United Arab Emirates: Emirates Center for Strategic Studies and Research.

_____. (2004). *Economic development in Saudi Arabia.* London ; New York: RoutledgeCurzon.

_____. (2006)."Saudi Arabia's role in the global economy", in Fox, John W., Mourtada-Sabbah, Nada and al-Mutawa, Mohammed (Eds.), *Globalization and the Gulf* (pp. 165-179). London and New York: Routledge.

_____ (2008) *Economic Governance and Reform in Saudi Arabia,* in Ehteshami, Anoushiravan and Wright, Steven (Eds.), Reform in the

Middle East oil monarchies. pp.133-152. Reading, Berkshire, UK:Ithaca Press.

World, Bank. (2007). *World Development Indicators (WDI).* ESDS International, (Mimas) University of Manchester. Available at: <http://esds.mcc.ac.uk/wds_wb/ReportFolders/ReportFolders.aspx?CS_referer=&CS_ChosenLang=en> Access Date: 17 April 2008

_____. (2008a). *World Development Indicators (WDI) April 2008.* Economic and Social Database Services International, University of Manchester. Available at: <http://esds.mcc.ac.uk/wds_wb/ReportFolders/ReportFolders.aspx?CS_referer=&CS_ChosenLang=en> Access Date: 17 June 2008

_____. (2008b). *World Development Indicators (WDI), April 2008.* ESDS International, (Mimas) University of Manchester. Available at: <http://esds.mcc.ac.uk/wds_wb/ReportFolders/ReportFolders.aspx?CS_referer=&CS_ChosenLang=en> Access Date: 17 April 2008

_____. (2008c) *World Trade Indicators (WTI) 2008 .* World Bank. Available at: <http://www.worldbank.org/wti2008>.

_____. (2009). *World Development Indicators (WDI).* ESDS International, (Mimas) University of Manchester. Available at: <http://esds80.mcc.ac.uk/WDS_WB/ReportFolders/reportFolders.aspx > Access Date: 5 January 2009

_____. (2010). *World Development Indicators (WDI)* Bank, World. Available at: <http://data.worldbank.org/> Access Date: 21 April 2010

WTI. (2008) *Malaysia: Trade brief*. World Trade Indicator, World Bank. Available at: <http://info.worldbank.org/etools/wti2008/docs/brief117.pdf>.

WTO. (2006). *Trade Policy Review: Malaysia Revision.* World Trade Organisation, WTO.

_____. (2009a) *Tariff Profile: 2009*. World Trade Organisation: WTO. Available at: <http://stat.wto.org/TariffProfile/WSDBTariffPFView.aspx?Language=E&Country=MY>.

_____. (2009b) *Tariff Profile: 2009*. World Trade Organisation: WTO. Available at: <http://stat.wto.org/TariffProfile/WSDBTariffPFView.aspx?Language=E&Country=MY>.

_____. (2009c). *Trade Policy Review: Report by the Secretariat Malaysia.* World Trade Organisation: Trade Policy Review Body, WTO. 14 December 2009

Yates, Simeon J. (2004). *Doing Social Science Research.* London SAGE Publication ltd.

Yeats, Alexander J. (1997). *Does Mercosur's Trade Performance Raise Concerns About the Effects of Regional Trade Arrangements.* The World Bank: International Economic Department.

Yeoh, Émile Kok-Kheng and Ooi, Shuat-Mei. (2007, 19 - 20 March). *China-ASEAN Free Trade Area: Prospects and Challenges for Malaysia*. Paper presented at the International Conference on "Made in China vs. Made by Chinese: Global Identities of Chinese Business", organised by Durham University, United Kingdom.

Yong, Ong Keng. (2006). *Strengthening Ties between Asia and The GCC.* ASEAN. ASEAN. Available at: <www.aseansec.org/18163.htm> Access Date: 20 November 2007

Yu, R., Cai, J. C. and Leung, P. S. (2009)."The normalized revealed comparative advantage index". *Annals of Regional Science,* Vol: 43 (1), pp.267-282.

Yue, Changjun. (2001, *Comparative Advantage, Exchange Rate and Exports in China*. Paper presented at the International Conference on Chinese economy, organised by CERDI, France.

Yusoff, Mohammed B. (2005). *Malaysia Bilateral Trade Relations And Economics Growth.* International Journal of Business and Society. Malaysia. Available at: <http://findarticles.com/p/articles/mi_qa5502/is_200507/ai_n21363992/pg_2?tag=artBody;col1> Access Date: 26 June 2008